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ECONOMY OF THE SOUTH

19

REPORT

OF THE

JOINT COMMITTEE ON THE ECONOMIC REPORT

ON

THE IMPACT OF FEDERAL POLICIES ON THE ECONOMY OF THE SOUTH

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JOINT COMMITTEE ON THE ECONOMIC REPORT

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LETTER OF SUBMITTAL

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
July 1, 1949.

To the Members of Congress:

The attached report, The Impact of Federal Policies on the Economy of the South, represents the first research project completed under provisions of the Employment Act of 1946 authorizing the Council of Economic Advisers to utilize the services and facilities of private research agencies. The report was prepared by two highly competent southern economists working in conjunction with the members of the Committee of the South of the National Planning Association to whom the report was presented for review and criticism. Since the Committee of the South is made up of more than 50 southern leaders from agriculture, labor, business, education, government, and other fields, this report represents a breadth of thinking and understanding that could not be achieved merely by a group of students working in seclusion. It may well pave the way toward similar research undertakings with respect to other great regions of the country.

The economic progress and stability of the Nation as a whole depends, as the Members of Congress all know, on healthy economic conditions in the various parts of the country. Careful analysis of the economic problems and potentialities of the States and of the great regions of the country is, therefore, a necessary basis for a wise determination of national policies and programs. The impact of Federal activities on States and groups of States needs constant appraisal to insure that such activities suit the needs of the people who live there and at the same time contribute most effectively to the growth and stability of our economy.

This report examines carefully the economic development problems and needs of the 13 Southern States stretching from the Potomac River to the Rio Grande, and analyzes and makes recommendations with respect to the major Federal policies affecting that region. The principal objective, the report concludes, is to increase living standards and per capita real income by improving the ratio of developed resources to population and by encouraging a higher level of productivity in both industry and agriculture.

In submitting this report it should be pointed out that the joint committee itself has not acted upon it.

JOSEPH C. O'MAHONEY,
Chairman, Joint Committee on the Economic Report.

CONTENTS

LETTERS OF TRANSMITTAL

EXECUTIVE OFFICE OF THE PRESIDENT,
COUNCIL OF ECONOMIC ADVISERS,
Washington 25, D. C., July 7, 1949.

The Honorable JOSEPH C. O'MAHONEY,
United States Senate, Washington, D. C.

DEAR SENATOR O'MAHONEY: It is with great pleasure that we transmit herewith a report entitled "The Impact of Federal Policies on the Economy of the South." This report was prepared for the Council on behalf of the National Planning Association's Committee of the South by Calvin B. Hoover and B. U. Ratchford. This is the first and only example of a private research project to which the Council of Economic Advisers has given financial support under section 4 (e) 2 of the Employment Act.

The Council is confident that this report will be of considerable interest to the Joint Committee on the Economic Report, to other committees interested in regional development—above all, the Committee on Interior and Insular Affairs—and to all Members of the Congress.

Sincerely yours,

EDWIN G. NOURSE, *Chairman.*
LEON H. KEYSERLING, *Vice Chairman.*
JOHN D. CLARK.

WASHINGTON, D. C., *June 20, 1949.*

THE COUNCIL OF ECONOMIC ADVISERS:
The Honorable EDWIN G. NOURSE, *Chairman.*
The Honorable LEON H. KEYSERLING, *Vice Chairman.*
The Honorable JOHN D. CLARK.

Sirs: On behalf of the National Planning Association and its Committee of the South, it is my pleasure to submit herewith the report you requested on the Impact of Federal Policies on the Economy of the South.

In accordance with the agreement of June 18, 1948, between the Council of Economic Advisers and the National Planning Association, the report has been prepared by Dr. Calvin B. Hoover, Director of Research of the NPA Committee of the South, and Dr. Benjamin U. Ratchford, both of whom are on the staff of the department of economics of Duke University.

It is our hope that you will find the report satisfactory and useful, and that it meets the requirements of our agreement. To our knowledge, no comparable study of the South has ever been made—either as to content or method of study.

As to content, the report's appraisal of the impact of current Federal policies on the economy of the South includes—

An examination of the developmental needs of the South against the background of Federal policy.

An analysis of those governmental policies which appear to help—and those which appear to hinder—the continued development of the South.

Recommendations for changes in principal Federal policies necessary for the maximum promotion of southern employment, production, and enterprise consistent with the over-all national economic well-being.

Suggestions—whenever the available information seemed to be insufficient for drawing considered conclusions—of needed future research projects.

A systematic attempt has been made to correlate data and to define and appraise the complex of policies which handicap economic development and those which facilitate it.

As to method, during the course of the study the authors' findings regularly have been presented to the members of the NPA Committee of the South for their criticism and suggestions. The Council, therefore, is receiving not only the authors' expert analyses, but a report which takes into account the experience and judgment of southern leaders from agriculture, business, education, finance, government, industry, labor, the press, and radio, who compose this committee. (The names of committee members are given on a list immediately following this letter.)

The primary objective of the NPA Committee of the South is to seek ways of expanding employment, production, markets, and economic opportunity in the South. The members believe in the process of consultation—in the joint effort by different economic groups to think a problem through together. They believe that the South is an integral part of the Nation, and that the southern economy must be viewed in its national context. Their interest is not merely in what they can learn, but in what they can do, and they are glad to have the opportunity of making their views available at the focal point of policy recommendation at the national level.

The National Planning Association appreciates the interest expressed by the Council of Economic Advisers in requesting this study. We are deeply indebted to the authors for their painstaking analyses and to the members of the NPA Committee of the South for the time and effort they have put into criticizing and advising on the early drafts of this manuscript. It should be noted, however, that while the members of the NPA Committee of the South cooperated throughout the preparation of this report, they have not passed on matters of detail. The authors—Dr. Hoover and Dr. Ratchford—are solely responsible for the data and the conclusions put forward in this final report.

Respectfully,

E. J. Coil,
Director, National Planning Association.

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Calvin B. Hoover (director of research of the committee), chairman, department of economics, Duke University, Durham, N. C.
William Davlin (NPA consultant to the committee), Chief, Area Development Division, United States Department of Commerce, Washington, D. C.

LETTER OF SUBMITTAL

DURHAM, N. C., *June 3, 1949.*

Mr. E. J. COIL,
Director, National Planning Association, Washington, D. C.

SIR: In accordance with the instructions of the NPA Committee of the South, we are herewith submitting to you our report on the Impact of Federal Policies on the Economy of the South.

The authors are greatly indebted to a number of economists, both in and outside of government service, who have read the report and who have made criticisms and suggestions.

An effort has been made to keep footnote references to a minimum. Consequently sources frequently are not cited. The authors desire in particular to express their appreciation to the authors of the studies included in hearings before Special Subcommittee on Cotton of the Committee on Agriculture, House of Representatives, Eightieth Congress, first session, commonly known as the Pace report. This report has been valuable both as a source of specific information and as general background.

The authors' special thanks are due for the substantial contributions to this report by the members of the NPA Committee of the South. Repeated consultations and discussions with them and with other NPA Committee and staff members have been invaluable to us in preparing the report. Our assignment would have been virtually impossible to fulfill without the practical and active assistance of committee members, not only in explaining points of view in their various fields, but in providing technical information and analyses. Even so, it should be emphasized that neither the NPA Committee of the South itself nor NPA's individual members are in any way responsible for the data or conclusions as set forth in this report. All responsibility is solely our own.

Respectfully,

CALVIN B. HOOVER.
B. U. RATCHFORD.

ECONOMY OF THE SOUTH

I. The South as a Region for Economic Development

For the purpose of this study, the South includes the 13 States lying between the Potomac and Rio Grande Rivers; namely, Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, and Virginia.

In some respects these Southern States do not constitute a homogeneous region for an economic study. In fact, the problem of homogeneity arises almost as soon as more than one State is included if, indeed, it does not arise within the borders of a single State. For this study it seemed desirable to adopt a comprehensive definition of the South even if that means including certain regions which are not homogeneous with others. The 13 States named above have many elements of homogeneity, although in varying degrees, such as geography, population, climate, income, and industry. In particular, each is an important factor in the production of one or both of the two great cash crops which dominate the agriculture of the region, cotton and tobacco.[1] Further, our previous studies have shown that there is a fairly definite pattern of economic behavior, particularly in the fluctuations of income payments, which is typical of these States.

While the study covers all 13 States, the problems which we regard as peculiarly southern and which receive most of our attention and emphasis are those which concern the Southeastern States and especially those east of the Mississippi River. The Southwestern States of Oklahoma and Texas, and especially their western parts, present problems of their own, and we are not able to deal with those in a comprehensive or adequate way. Consequently the view and conclusion expressed here apply primarily to the Southeast and only to a less and varying extent to the Southwest.

Land area and uses

The South contains 843,812 square miles, or 540,040,000 acres, of land area. This is 28.3 percent of the land area of the United States. Table I shows the division of this area by land uses at the beginning of 1945 and gives comparative figures for the remainder of the United States. Proportionately, the South has half as much pasture and range land, a little more cropland, and about 50 percent more forest land than the rest of the Nation. About 37 percent of the Nation's forest lands, and about 42 percent of its commercial forest lands, are in the South.

[1] Florida is an exception. In many respects Florida does not behave like a Southern State, but for several reasons (the chief of which is geography), it is not feasible to exclude it from this study.

While the 13 States named above will be the subject of the study, it will frequently be desirable to depart from the grouping. Often it will be advantageous to use data or conclusions from studies which use different groupings. For example, the Bureau of the Census defines the South to include the above 13 States plus Delaware, Maryland, the District of Columbia, and West Virginia. Howard W. Odum, in his Southern Regions of the United States, defines the Southeast to include only 11 States, the above list less Oklahoma and Texas.

TABLE I.—*Land areas of the South and non-South, by major uses, 1945*

	Area (thousands of acres)		Percent of total	
	South	Non-South	South	Non-South
Total land area	540,040	1,365,522	100.0	100.0
Forest land:				
Commercial	195,200	265,844	36.1	19.5
Noncommercial	35,775	127,009	6.6	9.3
Total forest land	230,973	392,855	42.7	28.8
Cropland	162,072	363,039	30.0	26.6
Pasture and range	99,773	509,711	18.5	37.3
Other	47,264	99,675	8.8	7.3

Source: Compiled from Basic Forest Statistics for the United States as of the Beginning of 1945, Forest Service, U. S. Department of Agriculture, Washington, 1946.

These figures are affected considerably by the inclusion of large areas of prairie lands in the western parts of Oklahoma and Texas. If those are omitted, certain of the percentage figures given for the South above are changed as follows: Forest land, 56.5; cropland, 29.2; pasture and range land, 3.5; other, 10.8. The significant point here is that, omitting those western areas, somewhat more than half of the land area of the South is in forests, which occupy almost twice as much area as do croplands.

THE PLACE OF AGRICULTURE IN THE ECONOMY

The South's population is predominantly rural and agriculture is much more important in the region than in the remainder of the Nation.

In 1940, only 34.8 percent of the population was classed as urban in the South, compared with 65.0 percent in the non-South. The South's farm population was about 15.5 million out of a total of approximately 37 million; the region had almost exactly half of the Nation's farm population and had 2,857,000 of the country's 6,097,000 farms.

In the same year, 34.9 percent of the employed persons in the South were engaged in agricultural occupations, compared with 12.8 percent in the rest of the country.

Also in 1940, 15.5 percent of total income payments in the South came from agriculture, as against 7.3 percent in the non-South.

In brief, two-thirds of the southerners lived in rural areas and two-fifths of them on farms. One-third of the employed people were engaged in agriculture and they received less than one-sixth of total income payments.

While the South is predominantly rural, it is changing fast. During the 1930's, urbanization and industrialization continued in the South while it was halted or reversed elsewhere. The proportion of employed persons engaged in agriculture dropped from one-half in 1920 to a little more than one-third in 1940. World War II accelerated the trend greatly, but complete figures are not yet available. We do know that farm population dropped to 11.5 million in 1945, less than a third of the total. Income payments from agriculture rose somewhat in relative terms—from 15.5 percent of the total in 1940 to 17.2 percent in 1947—largely because of increases in the prices of farm products.

The agriculture on which the region depends so heavily rests, in turn, upon two major crops, cotton and tobacco. In 1946 these two

crops accounted for 34.6 percent of the total cash farm receipts of the region, while no other crop brought in as much as 5 percent.[2] Livestock and livestock products accounted for 37.1 percent of the total, and the remainder was distributed over a large number of crops.

Aside from the fact that they are purely cash crops, cotton and tobacco have several other characteristics in common.

Both require large amounts of hand labor and are yielding very slowly to mechanized cultivation and harvesting. Both make heavy drains upon soil fertility and consequently require heavy cost outlays for fertilizer.

Both are heavily dependent upon foreign markets.

Both impose heavy peak requirements for labor for certain periods and require no work for several months of the year; this makes it difficult to develop farms with balanced work programs throughout the year.

While concentration upon cotton and tobacco is still great, that, too, is changing. Between 1929 and 1946, the following changes occurred in cash receipts from farm marketing (expressed in percentages of total); cotton dropped from 46.0 to 20.9; tobacco rose from 7.5 to 13.7; livestock and livestock products increased from 27.6 to 37.1 (beef cattle alone increased by 50 percent, from 8.1 to 12.9); all other crops showed increases of varying amounts. The South is achieving, as it long has been advised to do, a more diversified and better balanced agriculture.

POPULATION CHARACTERISTICS

Over the past half century, the South has had approximately the same proportion of the Nation's population as of land area. This means that the population density in the South has been about the same as in the rest of the country. This, however, is subject to two important qualifications.

First, the non-South contains many thousands of square miles of semiarid land which is practically uninhabited. In terms of arable land, the South has a lesser density.

Second, the South is predominately rural. This accentuates the density in terms of those actually living in rural areas and to a considerable extent offsets the effect of the first qualification.

The density of rural population (using total land area less "other" in table I) in 1940 was 31.4 per square mile in the South and 16.8 in the non-South. If the Mountain States, which embrace most of the semiarid land, are omitted, the figure for the non-South becomes 27.4.

Population growth

From a figure of 21.9 millions in 1900, the South's population increased to 37 millions in 1940, for an increase of 69 percent. Meanwhile, the non-South experienced an increase from 54.1 millions to 94.7 millions, or 75 percent. Two features of this growth are significant:

First, in each decade from 1900 to 1930, the South had a lower rate of population increase than the non-South, but between 1930 and 1940 it had a higher rate by 50 percent—9.6 percent compared with 6.4 percent. The reason was that the depression almost completely stopped migration out of the region.

The second pertinent feature is that in each decade, without exception, the rate of increase of the white population was greater in the South than in the rest of the country. From 1900 to 1940, the increase in the white population was 93 percent in the South but only 73 percent in the non-South. During the same period the nonwhite population increased by 23 percent in the South and 176

[2] This comparison overemphasizes the importance of these two crops since practically all of them are sold for cash, while with the other crops some portions are consumed on the farm.

percent in the non-South. The principal reason was the heavy migration of Negroes out of the South. As a result of this great differential in the rates of growth of the two races, the racial composition of the southern population changed from two-thirds white and one-third Negro in 1900 to three-fourths white and one-fourth Negro in 1940.

Since 1940, we have had the sharpest and most extensive changes in population movements and rates of population growth yet experienced. According to Census estimates, there was a net outward migration from Southern States between 1940 and 1947 of a little more than 3,000,000; the non-South gained these plus about 1,000,000 international migrants. As a result, the population increase in the South was 4.7 percent while in the non-South it was 10.6 percent—more than twice as much and a greater differential than has prevailed in any recent decade.

Based on the developments between 1900 and 1947, the following tentative hypothesis might be advanced:

Relative rates of population growth in the South and non-South are a function of industrial activity. In years of severe depression, the South has the higher rate of growth. In normal years, the South has a lower rate by 20 to 30 percent. In boom years, the South's rate of increase is only about half that of the non-South.

In all cases, variations in the volume of migration account for the changes.

Within the South there were great variations between States in the rate of population growth. Between 1900 and 1940, Florida, Oklahoma, and Texas each had an increase of more than 100 percent. The other States had increases varying from 89 percent in North Carolina to 33 percent in Kentucky. From 1940 to 1947 Florida continued its high rate of growth and Virginia and Texas also showed substantial gains. On the other hand, Oklahoma, Kentucky, Mississippi, and Arkansas showed significant declines. The other States had only small increases.

Birth and death rates

The reason why the South was able to "export" 3,000,000 citizens to the rest of the country between 1940 and 1947, while continuing to show some population gain itself, was, of course, the high birth rate in the region. The consistently and substantially higher rate in the South has often been noted and discussed, so it is not necessary to dwell upon it here.[3] Between 1930 and 1940, it varied from 24 to 26 per 1,000 in the South and from 17 to 19 per 1,000 elsewhere; in other words, it was from 40 to 50 percent higher in the South. On the other hand, in recent years death rates have been only slightly higher in the South and that difference has been due largely to the higher rate among Negroes.

The net result of the operation of these two rates can best be presented in brief compass by using some recent Census estimates. Those figures show that between 1940 and 1947 the United States had a natural increase in population (excess of births over deaths) of 11,738,000. Of that number, 6,921,000, or about 59 percent, came in the Southern States. With only about 27 percent of the Nation's population, the South provided 59 percent of the natural increase in population in these years.

Because of the high birth rates and the normally heavy migration, the population of the South is, on the average, considerably younger

[3] See, for example, Rupert B. Vance, All These People, Chapel Hill, 1945.

than that of the rest of the Nation. In 1940, the median ages of the three census divisions which make up the South were, respectively, 24.7, 25.5, and 26.2 years, contrasted with 29 for the whole country, 31 for the Middle Atlantic States, and 32.8 for the far West. In that same year, 30.1 percent of the population in the South was under 15 years of age, compared with 23 percent for the non-South. Conversely, only 5.5 percent of southerners were over 65 years of age compared with 7.3 percent of nonsoutherners.

Age composition

The South's age composition has important economic implications. First, it gives the South a relatively "flexible" population. Since many of the workers are entering the labor market each year, it is easier to channel them into new lines of activity and thus to meet the needs of a changing economic structure. On the other hand, this age composition gives more nonproducers for every worker of productive age. If we classify all persons between 15 and 64 years of age as productive and all others as nonproductive, in 1940 the South had 55.1 nonproductive persons for every 100 productive workers. In the non-South, the figure was 43.8 for every 100. This fact is one cause of the low per capita income in the South. Continuing the above example, if productive workers in the South had produced the same incomes as workers elsewhere, per capita incomes in the South would still have been lower by some 7 percent.

Education and health

The southern population is less well educated than the nonsouthern. In 1920 and 1930, the rate of illiteracy in the South was, on the average, at least twice the rate prevailing in the other parts of the country. In 1940, about one-fourth of all persons in the South over 25 years of age had not received more than 4 years of grade-school education, compared with about 11 percent in the non-South.

While the South is behind in matters of education, it has made relative gains in the past 20 years. School terms have been lengthened, teacher training has been improved, and outlays for public schools have been increased greatly. Between 1927–28 and 1944–45, Southern States increased their expenditures per pupil enrolled in public schools by 85.5 percent, while other States were increasing theirs by only 42.4 percent.

Expenditures for education represent about the same percentage of income payments in Southern as in non-Southern States. But because income payments are much lower in the South and because there are more southern children per income receiver, total expenditures per pupil in the South are just about half of such expenditures in the non-South.

Measures of health are fragmentary and inadequate, but such as we have indicate poorer health conditions in the South. Rejection rates under Selective Service were substantially higher in the South—for one period, seven Southern States had rates above 50 percent, compared with a rate of 39 percent for the country as a whole. Medical and dental facilities and the numbers of doctors and nurses per 1,000 persons are much lower in the South than elsewhere.

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Occupational employment

The distribution of the South's working population by occupations is in keeping with the nature of the economy as described above.

In 1940, 34.9 percent of the workers were engaged in agriculture, forestry, and fisheries, compared with 12.8 percent in the non-South.

On the other hand, only 15.3 percent of southern workers were engaged in manufacturing, contrasted with 26.4 percent in the remainder of the country.

In all other occupations except mining and personal services, employment was relatively lower in the South, although differences were insignificant except in transportation and utilities, finance, and professional services.

The number of employed workers (excluding those on emergency public work) in 1940 was 12.2 million in the South and 33 million in the non-South.

The pattern of employment is changing, however, and it is likely to change more rapidly in the future because of the mechanization of agriculture. In mechanization, southern agriculture has lagged far behind, due principally, perhaps, to the abundance of cheap manual labor, the small average size of farms, and the difficulty of designing implements and machines to handle the two principal crops. In 1945 the value of implements and machinery per farm in the South was only one-third of the figure for the non-South; only one southern farm in seven had a tractor compared with one in two farms elsewhere. Labor shortages and high farm prices gave a great impetus to mechanization during the war and the development of the flame cultivator and the mechanical cotton picker give promise that it may be possible to mechanize the cotton crop. One careful study of this problem arrives at the conclusion that between 1945 and 1965 mechanization of agriculture is likely to displace more than 2,000,000 farm workers.[4] This conclusion is based on an estimate that workers in agriculture will actually decline by more than a million instead of increase by about a million—as would have been expected under conditions prevailing a few years ago. If this development takes place, the pattern of occupation will be changed greatly and will probably come to resemble fairly closely that for the non-South.

This displacement, if it occurs, will be in addition to the usual surplus of population which, in good years, has normally migrated out of the South. This substantial and continuing outward drain, principally of men and women between the ages of 25 and 35, has been a matter of concern to many students of the South. They have feared that in this way the South was losing much of its best talent. Undoubtedly it has constituted a serious material drain, for hundreds of thousands of men and women have left the region just as they were reaching their productive years after receiving their education and training in the region. It is only logical, too, to assume that the more energetic and the more capable were the ones most likely to try their fortunes elsewhere. At present there is little empirical data which can be used to prove or disprove the latter assumption. This subject is considered further in chapter II.

In view of the normally heavy migration out of the region, it may not be too far-fetched to suggest that the South's principal, and most expensive, crop is its crop of human beings. In normal and boom years that crop is "harvested" when the South "gives away" to the

[4] Study of Agricultural and Economic Problems of the Cotton Belt, hearings before the Special Subcommittee on Cotton of the Committee on Agriculture, House of Representatives, 80th Cong., 1st sess., July 7 and 8, 1947, p. 622, Washington, 1947. (Cited hereafter as Economic Problems of the Cotton Belt.)

rest of the country some thousands of young men and women, principally between the ages of 25 and 35. (Of course, viewed from the opposite angle, this means that the non-South permits unrestricted access to its more highly paid employment opportunities to immigrants from the South.) In depression years, the market for these "free goods" fails and the region is forced to carry the excess supply until demand revives. In a very real sense, the South has been acting as a reservoir of labor for the Nation as a whole. During the recent war, that reserve of labor was of enormous importance in manning war plants from Massachusetts to California. For these reasons, the number of those migrants and the education and training they receive is a national, and not merely a regional, problem.

NATURAL RESOURCES

A thumbnail sketch of the South's physical resources is fairly encouraging. Soils present the least encouraging part of the picture, partly because of a relatively poor initial endowment and partly because of the erosion and misuse which have occurred during the past two centuries. In minerals, the South's principal dependence is on petroleum and it appears that the reserves of that mineral will dwindle sharply during the next 20 years. Although almost every mineral can be found somewhere in the region, the South is deficient in most of the basic minerals, with the outstanding exception of petroleum, sulfur, and coal. But the South would appear to have a clear and substantial advantage in its climate, its attraction for tourists, its water resources, and its forests. If existing assets are used intelligently and if the natural advantages are exploited fully, the South should be able to bring its income up more nearly to the national average.

Climate

One of the greatest natural assets of the South is its climate. While there are variations, very few parts of the region are subject to extremes of either heat or cold for any extended periods. In general, the summers are long and warm and the winters short and mild. Except for the extreme western portions, the whole region has an annual rainfall of 40 inches or more; some parts have from 60 to 70 inches. Precipitation is well distributed throughout the year.

For agriculture, the long growing season and the abundant rainfall permit growth of a great variety of crops and in the extreme southern parts allow two and even three crops to be grown in a season. In many places cattle can be kept on pasture for almost the entire year. The two major crops, cotton and tobacco, are not well designed to take full advantage of the climate. Also, the soils, which are neither frozen nor covered by snow, are extensively eroded unless well protected by cover crops.

For industry, the mild temperatures mean lower fuel bills, less expensive construction, and fewer interruptions to transportation by snow and ice. While the long summers with their warm and humid days do impair worker efficiency to some extent, many industrial plants are now installing air-conditioning equipment.

The combination of climate, geographical location, and topography gives the region a great attraction to tourists in both summer and winter. The South has more than half of the coast line of the Nation, including nearly all that is suitable for winter resorts. Its mountains are the highest in eastern America and are within easy reach of the great centers of population. It has millions of acres of cheap, submarginal land suitable for private game preserves and hunting estates or potentially for public recreational areas. The entertainment of tourists is already a major business in the South and soon may well exceed the cotton crop in economic importance.

Soils

While the South has a few garden spots, in general its soils "are mediocre in quality, highly erosive under intensive cultivation, and badly damaged by past practices." [5] Fairly thin and shallow topsoils to start with, sloping surfaces, row crops with no winter cover, and a heavy rainfall have combined to produce a most serious erosion problem. In addition, millions of acres along the coasts are covered with soils which are thin and sandy or swampy and covered with muck. As graded by the Soil Conservation Service, the South has only a third as much, relatively, of first-quality soil as the Middle West and about half as much of second-quality soils.

Because of the poor soils—and the nature of the crop in the case of tobacco—southern farmers must use large amounts of commercial fertilizers. In 1945, they bought nearly 8,000,000 tons at a cost of over $260,000,000. With only about a fourth of the Nation's cash farm income, southern farmers must pay from 55 to 60 percent of the country's fertilizer bill.

Mineral resources

Probably on no other aspect of southern resources do opinions differ so much as in regard to minerals. This is probably due largely to the difference between the geological and the economic realities. It is true that almost every mineral, from asbestos to zircon, can be found somewhere in the region, in some amount and of some quality. But in a large majority of cases they are present only in token amounts or in low grades. There are two ways of presenting data on mineral resources; one is in terms of annual production and the other is in terms of estimated reserve supplies. Both methods have serious limitations.

Table II shows the production of the more important minerals in the South in 1945. The value of the total production was $2,615,713,000, of which petroleum accounted for one-half. The value of fuel production, including petroleum, natural gas, natural gasoline, and coal, was over 85 percent of the total value. The value of total mineral production was 32.1 percent of the United States total, an increase from 24.5 percent in 1929. This increase was probably due in part to the great emphasis on fuel production during the war.

[5] Ibid., p. 556.

TABLE II.—*Production of certain minerals in the South, 1945*

Mineral	Unit	Volume	Value	Percent of United States—	
				By volume	By value
Petroleum	Thousand barrels	1,082,071	$1,318,001,000	63.2	63.0
Natural gas	Million cubic feet	2,708,070	439,406,000	69.9	53.5
Coal	Thousand short tons	113,246	372,522,000	19.7	21.0
Natural gasoline	Thousand gallons	3,256,589	134,927,000	69.7	68.7
Sulfur	Thousand long tons	3,833	61,300,000	100.0	100.0
Stone	Thousand short tons	32,366	38,889,000	21.1	21.7
Cement	Thousand barrels	16,969	27,819,000	15.7	15.9
Zinc	Thousand short tons	89	27,528,000	19.1	34.3
Sand and gravel	do	33,818	24,742,000	17.7	20.5
Clay, raw	do	6,999	24,550,000	37.6	61.7
Phosphate rock	Thousand long tons	5,527	22,436,000	95.2	93.2
Clay products			19,411,000		22.5
Iron ore	Thousand long tons	7,470	18,070,000	8.5	7.4
Total mineral production			2,615,713,000		32.1

Source: Compiled from Minerals Yearbook, 1945, Bureau of Mines, U. S. Department of Interior, Washington, 1947.

Minerals of which the region provides all or a very large majority of the Nation's domestic supply include bauxite, phosphate rock, and sulfur. By States, Texas accounted for over half of the value of total production; and Texas plus Kentucky, Louisiana, and Oklahoma produce over 85 percent of the value total.

Estimated reserves of some of the more important minerals are shown in table III. These figures, while they are the best obtainable, must be accepted only as approximations and with many qualifications.

At present rates of consumption, the petroleum reserves shown in the table will last about 14 years and those of natural gas, about 44 years. Of course, it is probable that some additional reserves will be discovered but, on the other hand, the rate of production is moving up. In any case, it is apparent that the South's most important mineral—petroleum—is being exhausted rapidly.

TABLE III.—*Estimated reserves of certain minerals in the South*

Mineral	Unit of measurement	Amount
Bauxite	Million short tons	38
Coal	do	867,000
Iron ore	do	14,372
Magnesium	do	1,480
Natural gas	Billion cubic feet	118,297
Petroleum	Million barrels	14,685
Phosphate rock	Million long tons	5,224

Source: Op. cit., Economic Problems of the Cotton Belt, pp. 638-653, estimates as compiled by the U. S. Department of Commerce and the Tennessee Valley Authority.

Listed as "Abundant" in one or more States: asphalt, clays, dolomite, gypsum, peat, pottery clay, quartz, rock asphalt, salt, shale, stone, titanium sands, and zircon.

Reserves of coal are adequate for an indefinite period and apparently the region can count on continued production of this item for a long time.

Iron ore reserves are adequate to supply the region for many years, but they vary in quality and all are substantially lower in quality than the best ores now being used. However, the best Lake Superior ores are being used up and when they are gone perhaps the poorer southern ores will be in a better competitive position.

The South can offer good water transportation, good sites, and abundant supplies of the other raw materials which go into steel.

In summary, the South has four major minerals but the supplies of the two most important ones—petroleum and natural gas—are rapidly being exhausted. Coal production will probably remain fairly stable and there is a reasonable chance for some expansion in the production of iron and steel. But it is doubtful whether the value of any probable expansion in the steel industry would be more than a fraction of the value lost by a major decline in the petroleum and natural gas industries. Sulfur production is important at present and constitutes the entire supply of the Nation. The region has considerable reserves of clays, phosphate rock, and several other minor minerals, and their total production makes a considerable sum. But there would seem to be no reason to expect increases in the production of any mineral which would be of major economic significance, nor enough to offset the probable decline in petroleum production over the next two or three decades. The South's salvation does not appear to lie with minerals.

Water resources

Heavy rainfall, a long coast line, and many rivers give the South an abundance of water resources. These are important as transportation routes, as recreation sites, as a source of power, and as one of industry's important raw materials.

Water still affords the cheapest transportation, especially for many of the heavy raw materials which the South produces. The region has approximately 61 percent of the Nation's navigable waterways.

Nine of the States reach tidewater, most of them for extensive frontage, and they have five of the best harbors in the country—Norfolk, Charleston, Mobile, New Orleans, and Houston-Galveston.

Six of the States are served by the Mississippi and its major tributaries.

Oklahoma is the only State which is not on the coast or on a major stream, and even it has several good-sized streams.

Much of the South's water power potential is due to the unique coincidence that one of the highest parts of the southern Appalachians—that part just north of the conjunction of Georgia, North Carolina, and Tennessee—has a very heavy rainfall, frequently exceeding 70 inches per year. As that water rolls down to the Atlantic and the Gulf it creates great potential horsepower.

In 1945, to use this power, there were installed in the region 4,782,000 kilowatts of hydro-generating power, or 32 percent of the Nation's total capacity of that type. In 1946, hydro capacity generated 24.3 billion kilowatt-hours of electric energy, or 41 percent of the total energy generated in the region; in the remainder of the country only 28 percent of total energy was hydro generated.

The large proportion of hydro capacity, plus the influence of TVA, have brought about sharp reductions in electric power rates and now give the region one of the lowest rates in the country. In 1944,

average revenue per kilowatt-hour sold to commercial and industrial firms was 1.16 cents compared with 1.29 cents for the country as a whole. On rural sales of electricity, the figures were 1.64 cents for the South and 2.45 cents for the United States.[6] This supply of cheap and abundant power is an important asset to both industry and agriculture. Despite the rapid development of water power in recent years, the Federal Power Commission estimates that there are still nearly 12 million kilowatts of undeveloped water power in the region, or more than twice as much as has been exploited thus far. It is not indicated how much of that might be incapable of economical development.

Water resources are important in another respect. An abundant, pure, and reliable water supply is essential to many industrial plants, especially those in the chemical and paper industries. The Southern Appalachians provide the last big source of such water still available for development in the East. That industry is taking advantage of this is indicated by the large number of rayon, nylon, and paper plants established in the South since World War II.

Forest resources

Forests constitute one of the South's important natural resources; almost half of the land area in the region is classed as forest land. In 1945, the region produced 42 percent of all the lumber produced in the country; in hardwoods, two-thirds of the total. The region has over 40 percent of all commercial forest area in the Nation and almost half of the saw-timber area. Because the southern forests have been cut over, however, they contain only about 30 percent of the total timber stand. But the striking advantage of a long growing season and abundant rainfall are evident in the figures for annual growth (table IV); well over half of the total annual growth in softwoods and almost half for hardwoods are in the South. In both cases, the region has a considerably larger proportion of the growth in the saw-timber sizes. The figures on annual drain show that the region's saw timber is being rapidly exhausted, while growth and drain are about equal for timber of all sizes. The estimated value of the timber crop in the region in 1945 was $882,286,000, which placed it second only to cotton.

Although the South's forest resources are large, they could easily be much larger were it not for several forms of waste:

The first is the waste due to understocking or poor stand of trees. In 1945, the region had nearly three-fourths of the poorly stocked commercial forest lands of the country, amounting to over 54,000,000 acres. In addition, much land in other categories is far from adequately stocked. The Forest Service estimates that not over one-fourth of southern forests have 70 percent of the stand required for full stocking—or are "well stocked." This form of waste is especially important because it means that the forces of nature, which could be producing millions of cubic feet of lumber each year, are allowed to go unused. There are some small signs of improvement; the number of seedlings planted in 10 Southern States increased from 7,000,000 in 1930 to 173,000,000 in 1938.

[6] Ibid, p. 676 and Statistical Abstract of the United States, 1946, p. 480, Washington.

TABLE IV.—*Forest resources and uses in the South, 1945*

Item	Unit	South		Non-South	
		Soft-wood	Hard-wood	Soft-wood	Hard-wood
Area of forest land	Thousand acres	230,973		392,855	
Area of commercial forests:					
Saw timber	do	102,645		103,351	
Pole timber	do	34,172		60,841	
Seedling and sapling areas	do	24,063		61,489	
Poorly stocked areas, etc	do	54,320		20,983	
Total commercial-forest area	do	195,200		265,844	
Volume of timber in commercial forests:					
Saw timber	Million cubic feet	40,135	39,750	198,258	38,341
Pole timber	do	19,084	38,890	62,520	33,067
All timber	do	59,219	78,640	260,778	71,408
Annual growth in commercial forests:					
Saw timber	Million board feet	13,006	7,581	8,842	5,872
All timber	Million cubic feet	3,581	3,291	3,175	3,323
Annual drain from commercial forests:					
Saw timber	Million board feet	15,742	9,911	22,808	5,452
All timber	Million cubic feet	3,703	2,758	4,398	2,416
Lumber produced	Million board feet	7,440	4,485	13,700	2,497
Pulpwood consumption [1]	Thousand cords	7,152		9,830	
Value of all forest crops	Thousand dollars	822,286		1,127,605	

[1] For this item, Maryland and West Virginia are included in the South.

Source: Compiled from figures of the U. S. Department of Agriculture and Bureau of the Census.

A second form of waste is the loss from fire, insects, and disease. Fire losses are notoriously heavy in the South. Between 1930 and 1937, the area of forest lands burned over each year in nine Southern States varied from 20,000,000 to 45,000,000 acres, with an average of 36,000,000 acres, or 22 percent of the forest area. "Of all forest fires occurring throughout the United States in 1936, 83 percent were recorded in the 11 Southern States. These fires represented 94 percent of the total area burned in the entire country."[7] Most of these fires are preventable and losses could be cut sharply by more funds for fire control. With 42 percent of the Nation's forest area, the South spent in 1945 only 28 percent of the funds going for forest-fire control in the whole country.

A third form of waste is that incurred in harvesting and processing timber products. The Forest Service estimates that 35 percent of all timber cut is wasted completely and another 22 percent is used for fuel—much of it inefficiently. These losses are due to poor cutting practices, wasteful and inefficient manufacturing processes, failure to use byproducts, etc. The presence of many small sawmills and processing plants is a major cause of this waste.

The Forest Service believes that forest yields in the South could easily be doubled, perhaps trebled, with more adequate stocking, better protection against fire, disease, and insects, and improved logging and processing practices. And there would be markets for the timber. In a detailed study of future domestic requirements, the Service estimates that in order to meet our future needs we will have to increase our annual growth of all timber by 50 percent and of saw timber by 100 percent.[8] The South's part in this proposed program would be to increase its annual timber growth from the present 6.39 billion cubic feet to 10.14 billion cubic feet, an increase of about 60 percent. These estimates make no allowance for any revolutionary developments in the use of wood, predicted by some who refer to wood as "the universal raw material." And, finally, if in time we should develop a surplus above our own requirements, there would almost certainly be a ready market for it abroad, for the world is threatened with a shortage of wood products for many years to come.

[7] Forest Lands of the United States, Hearings before the Joint Committee on Forestry, 75th Cong., 3d sess., on S. Con. Res. 31, pt. I, p. 95, September 1938, Washington.

[8] Potential Requirements for Timber Products in the United States, 1946, Reappraisal Rept. No. 2, Forest Service, U. S. Department of Agriculture, Washington, 1948.

In addition to their importance as a source of lumber, fuel, and pulpwood, forests are of great—if not vital—importance in other respects:

First, they protect the soil against erosion and prevent the silting up of water-supply and power dams.
Second, they protect the ground-water level and regulate the flow of stream.
Third, they constitute a refuge for wild game.
Fourth, they provide desirable recreation areas.
Finally, the work required in forest management naturally supplements the work required in growing cotton and tobacco to provide a well-balanced program of farm work throughout the year.

On any basis of comparison, its forests are one of the South's greatest assets. In its climate, location, topography, and transportation facilities, the region has outstanding advantages in the growing of timber. Up to the present, southern forests have not received the attention, the effort, nor the funds their importance would justify

INDUSTRIAL DEVELOPMENT

Over the past 75 years the South has substantially increased its share of the Nation's industry. The low point of the past century was reached about 1880, when southern wage earners in manufacturing were only about 8 percent of the total in the country. After that time the South's share increased steadily (except for the decade 1909–19), and by 1929 it had almost doubled, reaching 15.1 percent of all wage earners. In value of manufactured products, the increase was from 5.9 to 11.7 percent.

Industrial growth, 1929–39

A brief summary of the South's position in manufacturing in 1929 and in 1939 is given in table V. Roughly, in 1929 the South had a little more than one-sixth of the Nation's manufacturing establishments, employed a little more than one-seventh of the wage earners, and paid out slightly more than one-tenth of the wages. In value of manufactured products, the region had less than an eighth of the total for the country, and the value added by manufacture was a little more than a tenth—about the same proportion as for wages paid. Wage and salary payments from manufacturing accounted for 12.6 percent of all income payments to individuals in the region.

Within the region, the cotton textile industry was first in importance with 271,000 wage earners, or about one-fifth of the total. The lumber industry was second, and food products was third. These three industries accounted for nearly 45 percent of the wage earners in the region.
Other important industries were knit goods (principally hosiery), furniture, petroleum refining, and tobacco manufacturing. The latter two ranked low in number of wage earners but high in value of product.
North Carolina was the leading industrial State with 16 percent of the wage earners, followed by Georgia with 12, and Texas with 10. The least-industrialized States were Oklahoma, Arkansas, and Mississippi, each with less than 4 percent of total wage earners.

The decade from 1929 to 1939 was marked by 3 years of precipitous decline followed by 7 years of slow and irregular recovery. In the South the decline was not quite so great; the upturn came a little sooner, and the sharp recession of 1938 was not nearly so severe as in the rest of the country. As a result, in 1939 southern industry was just about back to the 1929 level, while industry in the remainder of the country was substantially below that level. The reason is

fairly clear: the South had very little heavy industry producing durable goods. Only two important southern industries—lumber and furniture—are in the category of durable goods. They behaved according to the pattern for durable-goods industries, production in which fell to 40 or lower (1935–39=100) in 1932 and to 60 or thereabouts in 1938. Production in the other major industries in which the South is heavily interested did not fall below 76 in 1932 nor below 90 in 1938.

TABLE V.—*Manufacturing in the South, 1929 and 1939*

Item	Unit	1929		1939	
		Amount	Percent of United States	Amount	Percent of United States
Number of establishments		35,570	16.9	29,664	16.1
Wage earners	Thousand	1,338	15.1	1,361	17.3
Wages paid	Million dollars	1,182	10.2	1,077	11.8
Value of product	do	8,215	11.7	8,253	14.5
Value added by manufacture	do	3,199	10.2	3,149	12.8

Source: Compiled from 16th Census of the United States—Manufactures, 1939, vol. III, Reports for States and Outlying Areas, Bureau of the Census, U. S. Department of Commerce, Washington, 1942.

Compared with 1929, southern industry in 1939 had about the same value of output and value added by manufacture. (But since prices were lower, this meant a larger volume of physical production.) Wage earners were up by 1.7 percent, but wages paid were down by 9 percent. By contrast, in the non-South wage earners were off by 13 percent; wages paid, by 23 percent; value of product, by 23 percent; and value added, by 24 percent. As a result of these divergent trends, the South's proportion of national totals increased significantly in all these categories. Wages and salaries paid in manufacturing rose from 12.6 to 13.0 percent of all income payments to individuals in the region.

There were no significant changes in the structure of southern industry in this decade.

Textiles, lumber and timber, and food products remained in the three top positions.

The knit goods industries probably had the greatest increase and rose to fourth place in number of wage earners employed with over 90,000.

North Carolina remained in first place among the States, increasing its proportion of wage earners from 15.7 to 19.8 percent of the southern total.

South Carolina and Tennessee showed small gains, but the other 10 States had moderate declines.

In value of product, Texas forged to the lead for the first time with 18.5 percent of the total, North Carolina was second with 17.2 percent, and Virginia was third with 12.0 percent.

A brief comparative study of the Census of Manufactures data on wages paid shows that the average wage per wage earner in the South varied from 63.4 to 67.4 percent of the average wage in the non-South during these years, with no definite trend. A similar study of value added per wage earner shows the value added per southern worker rose from 63.5 percent of the value added per nonsouthern worker in 1929 to 70.1 percent in 1939.

War and postwar periods

Except for its textile industry, in 1940, the South did not have many of the facilities needed to produce war goods. Nevertheless,

before the conflict was over the region had made a very substantial contribution to war production. This was made largely through shipyards, airplane factories, and munition plants built after Pearl Harbor. Since those plants did not get into full production until 1943 or 1944, the region lagged behind the rest of the country in factory employment and pay rolls in the years 1941–43. It has never quite regained its relative position of 1939 in employment, but has made a small relative gain in wages and salaries due to greater increases in rates of pay.

In one sense, the South played the part of a reserve force in war production. In the early months of the defense program, most of the large war orders were placed in the non-South because it had ample plant capacity, plenty of workers, and most of the know-how. But when the industrial system was operating at capacity, with labor scarce, and decentralization being emphasized for traffic and security reasons, many plants were built in the South to take advantage of the good locations and the relatively abundant labor supply. Similarly, when the peak of war production was passed, these southern plants were closed down first. Between 1944 and 1946, war manufacturing pay rolls in the Southeast declined by 49 percent and in the Southwest by 63 percent, compared with a decline of 37 percent in the whole country. The shock of this 1944–46 transition was eased somewhat by the fact that nonwar manufacturing pay rolls in the South held up better than in the remainder of the country. The reconversion problem was obviously less difficult in textiles, tobacco, paper, and petroleum than in steel and automobiles.

Briefly, what happened during the war was that manufacturing employment in the South increased from approximately 1,650,000 before the war to a peak of about 2,835,000, then declined to less than 2,200,000 in early 1946, after which it rose to 2,405,000 in 1947. At the latter date, the South had retained about 64 percent of the wartime increase in manufacturing employment; for the whole country, about 75 percent of the increase was retained.

The war production program caused the investment of nearly 4.5 billion dollars in manufacturing facilities in the South, about 79 percent of which was financed with Federal funds. The total for the region was about 17 percent of the national total—a proportion slightly higher than was represented by the South's manufacturing facilities before the war. But the pattern of the expansion—

> was a great deal different from that in the entire country, and generally speaking the differences were not favorable to the South. The industries which had more sound reconversion possibilities, and those which would aid particularly in further industrialization, accounted for a relatively small part of the industrial program in the South.[9]

Thus, the region received small proportions of plants in the vehicle, machinery, electrical equipment, and iron and steel lines, and large proportions of the plants in the explosive, ammunition, and chemical lines.

> In general, the explosives and certain chemicals plants have major reconversion handicaps, plus the fact that many are held in stand-by condition by the Government and hence cannot be classed as actual additions to the industrial plant of the area anyway.[9]

[9] Frederick L. Deming and Weldon A. Stein, Disposal of Southern War Plants, NPA Committee of the South Report No. 2, p. 15, Washington, July 1949.

When reconversion had been accomplished, the pattern of manufacturing employment in the South showed that—

The textile industry had declined sharply in relative importance—from about 30 percent of the total to about 25 percent.

Small declines were shown by tobacco, furniture, and stone.

The principal increases occurred in transportation equipment, paper, chemicals, petroleum and coal, rubber, nonferrous metals, and machinery.

The greatest geographical shift was the marked increase in Texas, which rose to first place during the war but fell back to second place—behind North Carolina—after the war.

From 1940 to 1946, income payments in the region increased almost $20,000,000,000 but—

the dollar increase coming from manufacturing pay rolls was smaller than that from any of the other four components, agricultural income, trade and service income, Government payments, and other income * * * . Nevertheless, the gain from manufacturing pay rolls was 2.5 billion dollars and probably represents a more solid gain than that * * *.

of agricultural income and Government payments.[10]

TERMS OF TRADE

Another important, although intangible, characteristic of the southern economy is found in the unfavorable terms of trade on which it does business with the rest of the country most of the time. This concept is explained and discussed at some length in the following chapter of this study.

FINANCIAL RESOURCES

In financial resources, the South ranks lower than in most other respects. In 1929, the region had less than 10 percent of the Nation's commercial banking assets; this fell to about 8 percent during the depression; and then rose slowly to 11.5 percent in 1939. The war brought a sharp rise to 15.7 percent in 1947—the highest proportion, probably, since the Civil War. The increase from 1939 to 1947 was 231 percent in the South compared with 131 percent in the non-South.

Commercial banks

The region's low proportion of commercial bank assets is accentuated by the fact that it has no savings banks and is deficient in other types of financial institutions. Southern insurance companies write only a small part of the insurance carried in the region and their rates are high in comparison with those of the large national companies. Investment banking facilities are very elementary and practically all large security issues of southern companies or governmental units are handled by organizations from outside the region. Financial resources are low on any basis of comparison, whether it be total income payments, industrial capacity, population, or whatever.

The decline in the South's proportion of commercial banking assets after 1929 provides a clue to one interesting and significant feature of financial behavior in the region. At a time when banking assets everywhere were declining in a demoralized fashion, the South suffered a relative loss. The reason was that large industrial, insurance, and public utility companies, many of which had their headquarters outside the region, curtailed operations, stopped investments,

[10] Ibid., p. 23.

and accumulated cash. Partly because of the larger number of bank failures in the South and partly for convenience, those companies transferred much of that cash to their principal depositaries outside the region. In fact, normally there is a persistent and fairly strong drain of funds out of the region in the form of profits and insurance premium payments. In prosperous years, these funds are returned, sometimes with additions, as investments. But when depression comes and investment operations are halted or greatly reduced, the outflow continues but with no offsetting return flow. Some elements of the outflow may be reduced but they may be offset—or more than offset—by transfers of bank balances of the type described above. The great increase in the South's proportion of bank assets in the past 10 years illustrates the effects of large investments plus better terms of trade plus the fact that during the war many manufactured goods normally bought outside the region were not available.

These wide and unpredictable fluctuations are an additional handicap to the South's inadequate financial system. Whether this drain will recur in the event of another depression is uncertain. Since 1934, deposit insurance has undoubtedly helped to alleviate the situation by reducing the fear of bank failures, but the $5,000 limit of insured deposits leaves a large part of many business deposits uncovered.

INCOME PAYMENTS

Perhaps the most striking and the most significant economic characteristic of the South is the low level of its income payments in relation to those in the rest of the Nation. This one measure, better than any other, sums up the net result of all economic activity and shows the extent to which the South lags behind the rest of the country in economic welfare.

Movements in income, 1929–47

In 1929, total income payments received in the Southern States amounted to 12.4 billion dollars. The total declined to 7.0 billion dollars in 1932, and then rose steadily (with only one interruption in 1938) to 35.9 billion dollars in 1947.

As percentages of national totals, the southern totals were 15 in 1929; 13.8 in 1931; 19.7 in 1944; and 18.9 in 1947. Between 1929 and 1947, total income payments increased by 188 percent in the South and by 119 percent in the non-South.

In per capita terms, southern income payments were $372 in 1929, $203 in 1932; and $925 in 1947. The increase over the whole period was 150 percent in the South compared with an increase of 84 percent in the non-South. The southern average was 47 percent of the non-southern figure in 1929; 45 percent in 1932; and 63 percent in 1947.

Table VI shows the per capita figures for both regions for each year and the relationship between them. In absolute terms, the differential between the averages for the two regions was $425 in 1929, $245 in 1932, and $535 in 1947. Thus, while the difference has declined in relative terms it has increased in dollar amounts; in 1947 it was considerably greater than in 1929 and somewhat more than twice as large as in 1932. In 1929, six of the Southern States had per capita incomes amounting to less than half of the United States average; in 1947, only one State was below that level.

TABLE VI.—*Per capita income payments in the South and the non-South, 1929–47*

Year	Amount		Index (1929=100)		South as percent of non-South
	South	Non-South	South	Non-South	
1929	$372	$797	100	100	46.7
1930	302	707	81	89	42.7
1931	251	594	67	75	42.2
1932	203	448	55	56	45.3
1933	208	430	56	54	48.4
1934	249	485	67	61	51.3
1935	272	533	73	67	51.0
1936	314	615	84	77	51.1
1937	331	650	89	82	50.9
1938	307	587	83	74	52.3
1939	322	624	87	78	51.6
1940	340	667	91	84	51.0
1941	423	800	114	100	52.9
1942	564	992	152	124	56.9
1943	702	1,185	189	149	59.2
1944	798	1,282	215	161	62.2
1945	833	1,310	224	164	63.6
1946	830	1,340	223	168	61.9
1947	925	1,470	250	184	62.9

Source: Compiled from figures provided by the National Income Division, Office of Business Economics, U. S. Department of Commerce, Washington.

In view of the great absolute and relative increases which the Southern States have made, it is somewhat paradoxical that they are now more closely grouped at the bottom of the income table than ever before. When the States are arranged in the order of the size of their per capita income payments, the Southern States occupy 13 of the bottom 15 positions; in 1929, four non-Southern States ranked below the top Southern States.

From 1929 to 1932, income payments declined somewhat more sharply in the South than elsewhere, probably due to the disastrous drop in cotton and tobacco prices.

However, the year 1933 saw a small rise in the South, while in the rest of the Nation there was a slight decline.

From 1933 to 1939, the South maintained a consistent lead in the recovery of income toward 1929 levels; in 1939 southern income payments were only 5 percent below 1929 compared with a lag of 16 percent in the remainder of the country. Probably the two factors primarily responsible for this were the sharp recovery in tobacco prices and the better performance of southern industry noted above.

From 1940 to 1944, the South extended its lead in income payments; in 1944, it was 139 percent above 1929 while the rest of the Nation was up by only 73 percent. The factors chiefly responsible this time were: the great increases in cotton and tobacco prices; the greater relative increases in the lower wages throughout the country; and, especially, the heavy civilian and military disbursements in the region by the Federal Government.

From 1944 to 1947, income payments did not increase as rapidly in the South as elsewhere, and consequently the South's lead was reduced somewhat. The causes of this development were: the Federal Government reduced its payments more sharply in the region; the prices of cotton and tobacco did not increase as much as did the prices of grain and livestock (plus the fact that cotton production was abnormally low); and the "war" manufacturing plants reduced their pay rolls more drastically in the South than elsewhere.

Composition of income

It is significant to note the changes in the composition of income payments which took place during the period of violent fluctuations, and especially the changes which have occurred since 1944, for they indicate postwar trends. Table VII gives both absolute and relative figures for the larger sources of income for certain key years.

From 1929 to 1940, income from agriculture declined sharply in both absolute and relative terms. During the war it increased at about the same rate as total income; but since 1944 it has gained somewhat in relative terms, although it is still somewhat less important in the total picture than it was in 1929. Agricultural income has been maintained since the war very largely by the peak prices which have prevailed for farm products. It is unlikely that those prices will be maintained at their relative levels indefinitely, so it is reasonable to expect that this segment of income will again decline in the not distant future.

Income from manufacturing increased gradually in relative importance before the war and then, under the impetus of war production, rose sharply between 1940 and 1944. A part of the wartime expansion was lost, but in 1947 this form of income remained more important in the region than before the war. In this respect, southern industry has made a somewhat better record than has industry outside the region. Despite the greater drop in "war" manufacturing, total wage and salary income from manufacturing in the South increased by 3.8 percent from 1944 to 1947; outside the region they declined by 0.8 percent. (In the 11 Southeastern States, the increase was 12 percent.) This would seem to indicate that the slow but steady growth of industry in the region is continuing in the postwar period, and that this segment of income payments might be expected to increase in the future. It is a fair probability that within a few years income from manufacturing will be larger than the income from agriculture, as it was for a year or two during the war.

TABLE VII.—*The composition of income payments in the South and the non-South, 1929, 1940, 1944, and 1947*

Income source	Amounts (millions)				Percentage of total			
	1929	1940	1944	1947	1929	1940	1944	1947
South:								
Agriculture	$2,513	$1,943	$4,533	$6,153	20.2	15.5	15.2	17.2
Manufacturing	1,562	1,719	5,119	5,312	12.6	13.7	17.2	14.8
Governments	1,013	1,591	7,747	6,195	8.1	12.7	26.1	17.3
Trade and service	3,107	3,157	5,814	9,336	25.0	25.2	19.6	26.0
Other	4,233	4,114	6,507	8,865	34.1	32.9	21.9	24.7
Total	12,428	12,524	29,720	35,861	100.0	100.0	100.0	100.0
Non-South:								
Agriculture	4,452	3,532	8,870	12,047	6.3	5.6	7.3	7.8
Manufacturing	14,737	13,655	37,502	36,788	21.0	21.6	30.9	23.9
Governments	5,049	8,573	19,153	21,305	7.2	13.5	15.8	13.8
Trade and service	17,040	15,958	25,944	41,264	24.3	25.2	21.3	26.8
Other	28,911	21,610	30,028	42,469	41.2	34.1	24.7	27.6
Total	70,189	63,328	121,497	153,873	100.0	100.0	100.0	100.0

Source: Compiled from figures provided by the National Income Division, Office of Business Economics, U. S. Department of Commerce, Washington.

Income from trade and service remained about constant in relative importance at about one-fourth of the total—except during the war, when it declined to about one-fifth. This segment of income has been about the same in the South as in the non-South, and there is no reason to expect any significant change in its relative importance in the future.

The income segment which underwent the greatest change is that made up of payments from governments.[11] Amounting to only 8 percent of total payments in 1929, it rose to almost 13 percent in 1940 and to 26 percent in 1944, when it was by a considerable margin the largest segment of all. The principal cause of this great increase was, of course, the heavy military and civilian payments by the Federal Government incident to the many army camps, shipyards, air bases, and regional and district offices of the war agencies in the region. When the fighting stopped, these payments were reduced rapidly, although this reduction was offset to a considerable extent by large payments to veterans and by increasing expenditures by States and local governments. In this shift the South lost heavily and this loss accounts almost entirely for the slower rate of income growth in the region since the war. From 1944 to 1947, income from governments in the South declined by 20 percent; in the non-South it increased by 11 percent. In view of this great difference in the behavior of this major form of income in the two regions, it is surprising that total southern income held up as well as it did in comparison with nonsouthern income.

It is probable that further adjustments will be made in this segment of income. In the fiscal year 1947, the Veterans' Administration of the Federal Government disbursed almost two billion dollars in Southern States. Of this, $1,181,000,000 were for readjustment benefits, which was 31.7 percent of all such benefits in the country. On a per capita basis, these payments amounted to about $30 in the South and approximately $24 in the non-South; they were equal respectively to 3.2 percent of all southern incomes and 1.6 percent of nonsouthern incomes. Thus, to the extent that these payments are reduced, southern incomes will suffer the greater reduction, both absolutely and relatively.

In summary, total southern income has increased greatly in the past 20 years, almost trebling between 1929 and 1947.

In relative terms, income from agriculture dropped sharply from 1929 to 1944, but has risen somewhat since then, due principally to high farm prices.

Over the whole period and aside from the war boom, income from manufacturing has increased slowly but steadily in relative importance; in the near future, it will probably be equal to agricultural income.

Income payments from governments have more than doubled in relative importance since 1929; they are now greater than income from manufacturing and about equal to income from agriculture. These payments accounted for a large part of the absolute increase, and nearly all of the relative increase, in southern incomes during the war and their sharp decline since the war has been the principal, if not sole, factor in reversing the relative increase in southern income which had been going on for almost 15 years.

Some careful students of income problems have raised the question whether low southern incomes are a regional problem or whether they are essentially a function of community size; that is, whether the income of southerners is not as high as the income of nonsoutherners who live in communities of the same size. One student found significant differences between family incomes in communities of different sizes but concluded that "The income differences among regions are apparently not significant." [12] Other students, however, have raised ques-

[11] As used by the Department of Commerce, this item includes payments from all levels of government—Federal, State, and local—including social security payments.

[12] Herbert E. Klarman, A Statistical Study of Income Differences Among Communities, pt. six in Studies in Income and Wealth, vol. VI, National Bureau of Economic Research, New York, 1943, p. 226.

tions concerning the validity of this conclusion.[13] One careful and thorough reply to the above study showed that after eliminating the effect of community size, family incomes in the South were distinctly and substantially lower than in the non-South,[14] although the difference was not nearly as great as the difference in per capita incomes shown above. There would seem to be a significant correlation between the size of family incomes and community size but the lines of causation are complex and uncertain. We do not feel that we have the space or the available data to go further into the matter here.

II. Barriers to the Economic Development of the South

There must be basic and fundamental causes for the great gap between southern and nonsouthern incomes, and it is quite unlikely that those causes are either few or simple. Rather, to produce such a large and persistent differential in incomes, they are likely to be numerous, complex, and deeply imbedded in the economy of the region. In the discussions of the handicaps to southern economic growth which have raged in recent decades, many such causes have been pointed out with varying degrees of validity. In the popular and political discussions, many of those causes were taken over as shibboleths or slogans and it was inevitable that they should often be misstated and misunderstood. Also, once a given factor has been assigned as a cause of southern retardation, there is a tendency to continue using it as an explanation regardless of changes which might have rendered it invalid or reduced its significance.

For some of the alleged causes there has never been any thorough and systematic analysis to check their validity, and, as far as can be determined, there has never been a comprehensive effort to consider all the alleged causes together to determine their interrelationships, their mutual consistency, and to evaluate their relative importance. Rather, the tendency has been to publicize them and to seek proof to demonstrate their validity.

BARRIERS PERTAINING TO THE POPULATION

Productivity

A cause frequently alleged for the southern lag is the low productivity of southern labor. It is usually not specified whether this refers to the innate ability to produce or to actual production. It is certainly true that actual production per laborer has been low, otherwise the lag would not exist. But the important question is whether, given favorable conditions, southern labor can produce as effectively as nonsouthern labor.

In manufacturing, the available evidence indicates that low productivity is not an innate characteristic of southern labor. Man for man, using the same ratio of economic resources and with equally good management, southern labor can produce approximately as efficiently as nonsouthern labor. The low ratio of industrial capital equipment and the relatively simple processes employed by a con-

[13] See comments by Gerig, Wendt, and Yntema in the volume cited above, pp. 226–235.
[14] Henry M. Oliver, Jr., Income, Region, Community-Size and Color, The Quarterly Journal of Economics, vol. LX August 1946, p. 594.

siderable proportion of southern industries account for nearly all of the low productivity of labor in the region.[15]

In a study of 41 companies which operated plants in both the North and the South, Lester found that 23 of the concerns reported labor efficiency in the South equal to or in excess of labor efficiency in the North. In respect to output per man-hour, the showing was even more favorable to the South—

> probably due in large part to greater work loads per employee and to newer plants in the South in some industries.

His conclusion was that—

> Differences in labor efficiency and productivity apparently are not a fundamental factor in regional differentials in wage rates.[16]

In their study of new plant location in the South, McLaughlin and Robock report several cases in which employers found southern labor fully as efficient as northern labor even where a high degree of precision was required, with no report to the contrary. One of the largest manufacturers (with similar plants in all parts of the country), stated that—

> In almost every case labor efficiency in our southern plants is higher than in our northern plants.[17]

It is true that industrial plants in the South have a comparatively large total labor supply to draw from to obtain their workers, so they may be able to make a better selection than nonsouthern employers. It is true also that southern manufacturing does not, on the average, require as high a degree of skill and precision as nonsouthern industry. But on the other hand southern labor does not have equally good opportunities for training nor a heritage of several generations of skilled craftsmanship. More and more, southern industry is developing along lines which require more skilled workers and thus far there is no evidence that it has failed to find the labor which can develop the skills required.

Factory workers make up only a minority of all southern workers. What of the productivity of the South's non-factory workers—especially that of the Negroes? Outside of manufacturing there is practically no sure method for measuring comparative productivity. However, the Department of Agriculture has developed an index of production which provides at least a rough measure of productivity in agriculture. One recent survey stated that—

> the three southern divisions have had about 50 percent of all the farm workers in the Nation, and have contributed about one-third of the total United States production in most of the interwar and World War II years.[18]

This means that the southern farm worker produced only half as much as the non-southern worker. Undoubtedly a considerable part of this difference is due to the fact that the southern worker had less land, poorer land, and less machinery to work with. Also, the practice

[15] It should be noted, however, that in the same type of industry capital equipment does not vary greatly between North and South. Indeed, in some cases southern industry has the newer and more modern machinery. It is simply that industries with high ratios of capital equipment per worker are usually located in the North, while industries with low ratios of capital equipment to labor are usually located in the South.

[16] Richard A. Lester, Effectiveness of Factory Labor: North-South Comparisons, The Journal of Political Economy, vol. LIV, February 1946, pp. 74-75. In practically every case where the output per man-hour was lower in the South, the wage differential was greater than the difference in output, so that labor cost per unit was lower in the South.

[17] Glenn McLaughlin and Stefan Robock, New Industry Comes to the South, NPA Committee of the South report No. 1, pp. 19-20, Washington, May 1949.

[18] Sherman E. Johnson, Changes in Farming in War and Peace, p. 59, Bureau of Agricultural Economics, Washington 1946.

of specializing in cotton or tobacco, with their high peak labor requirements leaves laborers idle for several months in the year.

In other fields, such as trade and services, labor productivity is low in the South but it is impossible to measure the difference with any degree of accuracy. Further, it is almost certain that if productivity in industry and agriculture were raised substantially, productivity in these lines would increase, too.

A priori, there is little basis for assuming that southern labor is less productive. True, the milder climate, often hot and humid, tends to reduce exertion and initiative. But in certain other parts of the country severe weather and the necessity of protecting against the cold may also reduce labor efficiency. Our conclusion is that given equal training, equipment, and managerial ability, southern labor is about as efficient as nonsouthern labor. Any difference which might exist is not a major barrier to raising southern incomes.

Health and education

The innate ability to produce may be affected and qualified by health and education. For this reason the productivity of labor in the South may be affected by the levels of health and education prevailing in the region, although it is extremely difficult to isolate and measure the effects of these two factors.

The average level of education in the South is distinctly below that prevailing in the rest of the country, although the region has made considerable progress in reducing the differential in the past 25 years. Even though no quantitative proof can be cited, it seems fairly certain that this improvement in the level of education was important in enabling the South to make the progress it did during World War II. The millions of southerners who entered the armed forces, who worked in factories and shipyards within and without the region, and who increased agricultural production at home could not have contributed as much as they did if they had had only the educational training which prevailed 30 years earlier. Only in comparatively recent years have most Southern States adopted acceptable child labor laws, compulsory school attendance, and school terms of adequate length. The beneficial effects of these measures are just beginning to be felt; they should be even more evident in the future.

Health, even more than education, is difficult to measure and compare between regions. The available fragmentary evidence indicates poorer health conditions in the South. Low per capita incomes, the scarcity of free clinics, and the low ratios of doctors, nurses, dentists, and hospital beds to the population all point toward a low level of medical care. The proportion of rejections for physical defects by the Selective Service during World War II was substantially higher in Southern States. A company covered in Lester's survey gave poor health as one of the reasons for the lower efficiency of southern labor. On the other hand, as noted earlier, death rates are only slightly higher in the South and the difference has been declining.

Presumably good health and educational training enhance productivity. If this were not true, there would be no economic reason for striving to attain them. To the extent that they are important, the South labors under a handicap, although it would not appear to be a major one. Since conditions of health and education are, to a considerable extent, functions of income, they are effects as well as causes

of the South's low income and they may be expected to improve as incomes rise—as, indeed, they have done in the past 20 years.

Migration

As noted earlier, there has been a heavy and fairly persistent outward migration from the South in recent decades. At different times it has been contended that a disproportionate number of the more able and talented people have left the region because of better economic opportunities elsewhere. This, it is argued, is an important cause of the economic lag in the South because if these people had remained in the region they would have used their unusual abilities to increase production and raise incomes.

One study showed that of the 6,015 native southerners living in 1932–33, who had attained distinction, 2,229, or 37.1 percent, were living outside the region. After deducting the number of distinguished men who had moved into the region, the net loss was 813.[19] Another study reached the same general conclusion and estimated that the loss of "eminent persons," was nearly three times as great as the loss of white population generally. This study found, however, that the net loss of talented persons tended to decline after 1924.[20]

Census data of migration of people from 25 to 34 years of age between 1935 and 1940 show that the largest group of out-migrants had received only a grade school education, while the largest group of in-migrants had completed high school, although in both categories the South had a net outward migration. Among those who had received college training there was a small net inflow into the South. An analysis of the migrants according to occupation yields the same general conclusion. Among the lower-ranking occupations there was a heavy net outflow, while in the top-ranking occupations there was a small net inflow. These data, however, must be accepted with great caution since they cover only one segment of the migrants and since migration was very low, and perhaps not typical, in the years from 1935 to 1940.

On a priori grounds it is logical to assume that the South's loss through migration should be somewhat heavier among people of outstanding ability and education. First, census data show that, generally, mobility is greater among people of more education and higher-ranking occupations. Second, the non-South offers a chance to compete for more positions carrying greater responsibility and prestige and higher incomes. (Texas might well be an exception to these generalizations and that fact perhaps accounts in part for its rapid growth in population in recent years.) As with health and education, this condition is an effect as well as a cause. A substantial increase in the South's income level relative to the rest of the country would undoubtedly go far to stop any drain of talent that is now going on.

Finally, it should be noted that migration is an opportunity as well as a loss. For those who leave the region there is the opportunity to share the more abundant facilities and to compete for the better incomes outside the region. For those who remain there is a reduction

[19] Wilson Gee, The "Drag" of Talent Out of the South, Social Forces, vol. 15, March 1937, pp. 343–346. The test of distinction was listing in Who's Who in America. Gee stated further, although without convincing proof, that "the South does not receive man for man the same grade of persons that it sends to other parts of the country."

[20] H. L. Geisert, The Trend of the Interregional Migration of Talent: the Southeast, 1899–1936, Ibid., October 1939, pp. 41–47.

in the population pressure and more resources per capita available for use.

Aside from the loss of unusual and outstanding talent, there is the financial burden of educating and training the hundreds of thousands of people who are born and reared in the South but who go elsewhere when they reach the productive age. In both of these respects the South is sustaining a loss through migration but it is doubtful if such loss can be described as a major cause of the economic lag of the region. In any event, the total loss is less than would be suffered if there were no migration.

FACTORS PERTAINING TO NATURAL RESOURCES

Soils

Because of the dependence of the region upon agriculture, the quality and condition of the soils available to farmers is a factor of major importance to the economic welfare of the South. By quality of the soil we mean its innate characteristics such as fertility, depth, texture, topography, and so forth, while by condition we mean its state as a result of past usage.

Despite outstanding exceptions, the quality of the soils of the South cannot be classified, for farming purposes and on the basis of innate qualities, as better than mediocre at best. Millions of acres are covered only by a shallow layer of soil, poor in fertility and thin in texture. Steep slopes often make it difficult to keep this thin coating from washing away. Other millions of acres are covered with soils so sandy and porous that they will not retain fertility. Still others are covered by muck and swamp lands which require extensive work to drain, if they can be used at all. It is true that these disadvantages are offset to a considerable extent by adequate rainfall and a long growing season. But all things considered, the soils of the South as a whole would have to be rated as no better than fair or average.

The treatment which they have received in recent decades has reduced still further the productivity of these soils. Repeated plantings in soil-depleting row crops, usually with no contour plowing to control erosion and without cover crops during the rainy winter months, have helped to produce serious leaching and erosion. The years of misuse have greatly reduced the productivity of the soils and the low productivity is now a major cause of low incomes. A concrete demonstration of this is provided by the millions of dollars which southern farmers pay out each year for commercial fertilizers in order to compensate to some extent for the lack of soil fertility. While nothing can be done to change the innate qualities of the soils, much can be done to repair the damages of leaching and erosion, and, indeed, a considerable amount is being done.

Forest management

About 43 percent of the land area of the South is classified as forest land; omitting western Oklahoma and Texas, the proportion is well over half. The virgin timber has been cut from nearly all of this land, and much of the cut-over land has been left to reseed itself or to stand idle. About one-fourth of the forest lands are definitely classed as understocked and only about 30 percent are fully stocked. This means that a very substantial part of the region's land area is,

in effect, standing idle and producing nothing. Further, many of the forest lands are not properly protected or managed.

Relatively small efforts applied to planting and caring for forest would yield considerable returns in the forms of timber, flood control, and protection against erosion. A region of low incomes can ill afford failure to make such efforts, especially when they could be made during the off-peak season when a large part of farm labor is normally idle. Another consideration is that in the years ahead more attention must be devoted to the forests in order to insure an adequate supply of raw materials for the lumber, furniture, paper, and chemical industries which provide a large share of the region's industrial employment.

Minerals and water power

The South is well supplied with the fuel minerals—petroleum, natural gas, and coal—and with sulfur and phosphate rock. Beyond these, the region has deposits of a large number of minerals but in most cases they are so scattered and of such low quality that it is not profitable to work them. Geological surveys frequently mention the presence of such minerals as iron ore, bauxite, diamonds, the precious metals, and so on. But since the cost of extracting and processing them would be prohibitive in most cases their presence has no economic significance. It may be that in the future improved mining and processing methods or the necessity of using lower grades of minerals may make them significant.

The South is not completely destitute of minerals and it would not be proper to list these low-grade deposits as a barrier or obstruction to economic growth. But they are not the asset some would imply and there is little hope that the region can, by exploiting and developing them, realize any substantial increase in its income.

The South is well supplied with water power. A very substantial part of this power is now being used; the region now has a higher proportion of hydro-generated electricity than the rest of the country. This situation gives the South comparatively cheap electric power and constitutes a major economic asset of the region. Nevertheless, data from the Federal Power Commission show that potential but undeveloped water power in the South is almost twice as great as that now being used. Data are not available to show how much of this is capable of economical and profitable development. Undoubtedly, the most advantageous sites have already been developed. The greatly increased costs of construction in recent years, the increased efficiency of steam plants in relation to hydro plants, and the necessity of building more steam plants to supplement less reliable supplies of water all make it necessary to examine very carefully the possibilities of the remaining sites.

Nevertheless, there are possibilities of further development of hydroelectric power. In 1947, public projects underway were scheduled to add 881,000 kilowatts of installed generating capacity to the power supply of the region. The TVA has shown what can be done by an integrated, coordinated development in developing latent power possibilities and in building up the demand for current. The remaining potential water power should be studied carefully for possibilities of further development.

As with minerals, the water power situation is not a barrier to economic development. But the power not now being used may be

an opportunity of considerable importance. In a region of comparative poverty, it is essential that such an opportunity should not be overlooked.

FACTORS PERTAINING TO INDUSTRY

Capital funds

In both industry and agriculture, and perhaps in other fields as well, much additional capital equipment will be required if southern incomes are to be raised to a level approaching the national average. With the low incomes now prevailing in the region, it is fairly obvious that the South can "catch up" in this respect only very slowly, if at all, if that equipment has to be provided out of southern savings. This simple fact has led many to conclude that the major barrier to the improvements of economic conditions in the South is the lack of sufficient indigenous capital funds. But the problem is not as simple as this and the emphasis on this point has perhaps been misleading.

There are three major ways in which additional capital equipment for the South may be financed:

First, and perhaps most important at present, large national companies with headquarters outside the region may build and equip plants in the South, using funds derived from various parts of the country.

Second, large southern companies may sell securities or borrow outside the region.

Finally, large and small southern companies may be financed locally.

Another device, of considerable importance at one time but probably little used now, was for southern industrial plants to buy their equipment from northern equipment makers on credit.

With the present structure of American industry, by far the largest part of any capital expansion is provided in the form of additional plants built by existing large companies rather than the creation of new plants by new companies. In recent years such expansion has been financed very largely (65 to 70 percent) by retained earnings or other internal funds of the companies. If outside financing is necessary, the companies can place security issues with insurance companies or sell them on the open market. To the extent that southern plants are built in this way, very few if any, of the funds come from the South. This is the easiest and quickest way for the South to become industrialized. But this way depends upon the initiative and decisions of companies outside the region. There is little that the region can do to speed up the process except to give the newcomers full information and fair treatment.

Southern companies which have attained considerable size have access to the capital markets of the East and Middle West. They may borrow from New York or Chicago banks or sell their security issues to insurance companies or underwriters in those cities. The flow of funds between the different regions of this country is now so free that financing of this kind should not be seriously handicapped by any shortgage of funds in one particular region.

The thousands of smaller concerns in the South must depend almost entirely upon local financing. For them a shortage of indigenous capital funds would be a serious handicap. Whether such a shortage does exist is probably impossible to say. We know very little about the amount and types of savings by regions and States, and even less about the legitimate demand for investment funds.

It is true that the resources of commercial banks in the South have increased in the past 20 years more than most other measures of

economic and financial activity, but the region still ranks lower with respect to them than in respect to most other items such as population, income, or production. Most parts of the region have only rudimentary facilities for assembling and investing savings, such as savings banks, insurance companies, and investment banks. It is certainly true that a considerable part of southern savings leave the region in the form of insurance premiums, purchases of stock on the New York Stock Exchange, etc. (This may represent sound practice in any event, since the small savings of the lower-income group should be put into sound and seasoned securities or contracts rather than into the equities of small new companies.)

The conclusion which follows is that the South does not have indigenous funds sufficient to finance the capital equipment which it needs and must have to raise its income, but that this fact alone is not necessarily serious. If the South has real economic advantages, funds will come in from the outside to finance the large plants. The real problem lies in providing the necessary funds to finance the many small- and medium-sized companies which must be financed locally. Here the savings may be adequate, but the South does not have the necessary facilities for making them available, and the investment opportunities may not be of the kind which are proper and desirable for the savers.

Absentee ownership

The first method of financing described above, and to some extent the second one, raises questions about the location of ownership. The control of the plants, under the first method of financing would be largely in the hands of outsiders. To the extent that earnings were paid out as interest or dividends, there would be a drain of funds out of the region. Even in the second method there would be some control by outside financial interests and some drain of funds. At certain times the drain of funds could be critical and under certain conditions the interests of the company and of the community might conflict. Such considerations have given rise to the contention that absentee ownership is an important obstacle to the economic development of the South.

Clearly there are certain benefits and advantages which accompany the control of a business enterprise. The right to pick the officers and important employees; the power to decide whose products shall be bought, which banks and railroads shall be patronized, and where plants shall be located—all of these carry not only economic prestige and power, but they may also, indirectly and incidentally, give certain financial advantages either to the individual who possesses them or to the company which he represents. If those powers are used to favor interests outside the region, then absentee ownership would not be so desirable as local ownership.

On the other hand, the South has realized substantial advantages from absentee ownership. When a large national concern establishes a plant in the South, that plant brings with it the accumulated technology or know-how which the concern has built up over years of operation and the right to draw on the research facilities of the company. It may also bring with it a higher scale of wages than prevails in the region and other employee benefits which are more advantageous to workers such as health insurance, vacation and retirement

privileges, and better systems of personnel administration. They may retain these benefits at the same level in southern as in northern plants, not necessarily because they are compelled to do so, but because it is not feasible to have two different systems in the same company. To the extent that it is more efficient because of larger size, better research facilities, or more competent management, the national company is able to provide the higher levels of worker benefits without impairing its profits. These advantages do not necessarily accompany absentee ownership but they do prevail in some cases.

The above comparison of advantages has been, of course, on the basis of absentee versus local ownership. It overlooks the fact that in many cases there would be no industrial employment at all if it were not financed by outside funds. In such cases outside funds are definitely better than none, unless workers and natural resources are grossly exploited and abused.

There is another significant aspect to this problem of local versus absentee ownership. A very considerable portion of southern industry, probably more than is commonly realized, was originally owned locally. As the concerns grew and prospered, there was often a tendency for control to be transferred outside the region in two ways:

First, the southern concern might be sold to a national company and be integrated into the larger concern. During the recent war a considerable number of textile mills were sold to outside interests which were building up integrated spinning-weaving-finishing organizations.

Second, when a company reaches a certain size, a majority of its stock may be bought by individuals outside the region and most of its financial activities may be transferred to New York, although its operations remain in the South.

The big tobacco companies and the Coca-Cola Co. are examples of such developments. Such companies become national concerns and lose their regional characteristics. The region loses the employment opportunities in management and, perhaps not infrequently, some of the top-level officers. In addition, to the extent that ownership remains in the South, southern owners now pay outside brokers, traders, banks, trust companies, and so forth, for their services in buying, selling, and transferring securities.

It might well be asked what happens to the capital funds which the original southern owners receive when they sell to outside interests. No study of this question has been made and perhaps no worthwhile study can be made. As a conjecture, it is probable that a large part of it goes into the securities of large national companies, into Government bonds, annuities, and other similar investments. It is doubtful that any large part of it becomes available as equity capital for southern companies. If this guess is correct, then the region, through these developments, loses a part of the indigenous capital it has accumulated.

Infant industry status

The technology which plants of outside companies may bring with them calls attention to another major obstacle to the development of southern industry. Modern industrial systems are exceedingly complex, technical, and their various parts are interdependent. Individual companies take a long time to attain maturity as they develop methods, techniques, research facilities, sources of supply, financial connections, channels of distribution, and sales organizations. But an industrial system includes much more than the major

industrial firms: There must be a host of smaller companies which design, manufacture, and service equipment; make or process essential parts or raw materials; use byproducts; provide specialized engineering, financial, and legal services; and supply many other vital commodities or services.

These auxiliary services cannot be established in a community until industrialization has reached a certain stage. Then they require considerable time to train their personnel, make their connections, and attain an efficient operating basis. All this must be done on a voluntary, unplanned basis by individual concerns searching for profitable opportunities. There will be many delays, many false starts, and many failures. All of these things require many years for full development, and with respect to them the South is several decades behind the more industrialized sections of the Northeast and Middle West. While some parts of this process can be speeded up by integration and cooperative action, in the main it is a handicap which can be overcome only with the passage of time.

Research facilities

One of the most important of the factors discussed above, and one which may be capable of specific improvement, is the adequacy of research facilities. Because of their small size and comparative immaturity, most southern industrial companies are conducting little if any research work. Further, many of the largest plants are branches of national companies which maintain their research laboratories outside the region.

According to National Research Council data for 1938, only 2.2 percent of the industrial research personnel of the Nation were located in nine Southeastern States, while 89.2 percent were in States east of the Mississippi River and north of the Ohio and Potomac Rivers. A recent study of patents granted in the 50 years from 1893 to 1943 shows that of all patents issued to American citizens, only 3.9 percent were accredited to residents of the nine Southeastern States; between 1934 and 1943, the proportion was only 2.9 percent.[21] There can be little doubt that more research facilities are needed in the region.

One possible way in which this need might be met is by the establishment of nonprofit research centers, either independently or in connection with some large universities or technical schools. Such centers would carry on pure research with the help of public appropriations or endowment income and would do contract research on a cost basis for industrial companies which desire it. Three such centers have been established in the South in recent years. One of them—the Southern Research Institute—now has a staff of 65 technical people. Within 8 months after it started, its contract research work became self-supporting and its revenues from that work in 1948 were expected to reach $400,000.

Managerial training

Because the South has comparatively few large, locally owned industries and because most of the managerial work for the southern plants of national companies is performed outside the region, there has been little opportunity for the development of trained managers and other policy-forming officers in the region.

[21] Southern Research Institute, A Presentation of Southern Research Institute, p. 2.

There have been numerous instances in which the founder of an industrial company, who was familiar with all its problems, died leaving neither children capable of taking his place nor other persons trained for the job. Not infrequently the establishment was sold immediately to a larger concern or slowly declined and was eventually absorbed by some other company after years of poor management.

This is a situation which may be capable of improvement by specific and group action. The establishment of one outstanding school of industrial management in the region, perhaps in connection with one of the large research centers, might help to provide a solution.

INSTITUTIONAL FACTORS

Freight rates

Perhaps the barrier to southern progress which has received the greatest amount of popular attention has been high freight rates. There are a number of reasons why this is true:

First, this cause—especially as it was usually presented—seemed a most logical one.

Second, it absolved the region itself from all responsibility for the economic lag and placed the blame on the railroads and the financial interests which control them—always favorite whipping boys. By the same token, it offered a quick and easy panacea if the right law were passed or the correct court decision gained.

Third, the question easily and quickly became a political issue; after that the public heard much argument but little factual analysis.

Undoubtedly there have been cases in which southern producers have been hurt by high interregional freight rates. That is inevitable when thousands of rates are involved; it is bound to happen even within a region. But it is our opinion that this factor has been greatly overemphasized and that high freight rates are not now, and never were, a major barrier to the economic development of the South. Basically, there are two reasons for this opinion:

First, the difference in rates has not been as great as was popularly claimed. Second, even when the southern rates were higher, they have not been the major obstacle many have imagined—in some cases they actually have been advantageous to southern producers.

First, it may be well to discuss one elementary misconception. Some arguments have implied that it was generally cheaper to ship a carload of freight from, say, New York to Atlanta than to ship the same carload from Atlanta to New York, and that this difference existed because of the caprice or evil design of the railroads. In general this is simply not true. As a general principle freight rates to and from points in the South and elsewhere will be the same. The Interstate Commerce Commission requires that when differences do exist in the rates for movements in different directions these differences must be justified by differences in costs.

The difference in rates has not been presented in its true perspective and its importance has been greatly exaggerated. Most attention has been concentrated on class rates, which have ranged some 28 or 30 percent higher in the South than in the Northeast. But very little traffic, comparatively, moves on class rates.

In a test survey of all carload traffic moving on September 23, 1942, only 1.8 percent of all traffic in the Southern Territory moved on class rates, 6 percent moved on exception rates, and 92.2 percent moved on

commodity rates. In the Eastern, or Official Territory, the percentages were, respectively, 5.8, 17.6, and 76.7.

In most cases, as soon as there is any considerable amount of any commidity to be moved in any region, shippers can obtain from the railroads an exception or, most likely, a commodity rate, which is lower than the class rate it would otherwise take. Commodity rates have been obtained for most southern commodities (by volumes moving) and in many cases those rates have been so constructed as to reduce or eliminate the territorial differential. In fact, on several important southern commodities, such as aluminum sheet and plate, automobile tires, boots and shoes, cigarettes, and shelled peanuts, the southern rates are substantially lower. That shippers have been able to get satisfactory commodity rates on most of the major southern commodities is indicated by the fact that there have been very few, if any, complaints about high freight rates on such things as textiles, manufactured tobacco, petroleum products, chemicals, lumber, or furniture.

It is impossible to give any accurate and meaningful statement of the difference in commodity rates in the South and in the rest of the country. There are thousands of such rates and the amount of traffic which moves on each varies greatly from one territory to another. One careful study of the problem makes this summary statement:

> Out-bound rates on most of the principal southern manufactured products range between 90 and 110 percent of corresponding northern rates.[22]

This is about as near equality as one could expect, even within a region.

In recent years the Interstate Commerce Commission has been concerned with the matter of interregional rates. After a long investigation, in 1945 it ordered the railroads to remove most of the differential which then existed in rates. Two years later the United States Supreme Court upheld this decision, and the roads are now in process of carrying out that decision. Unless this policy is reversed it should finally and for all time remove this factor from the area of discussion.

Second, where differences in freight rates have existed, their importance has been greatly exaggerated. For example, most of the horrible examples which have been cited have been rates for commodities of very minor importance. Such rates may be obsolete and of no appreciable importance to anybody. But if there were any considerable amount of traffic to move on such rates, the roads might well revise them or make new ones; the railroads are interested in developing business along their lines and are willing to consider new rates when it appears profitable to do so. Further, many parts of the South are served by water transportation which has always provided a potent form of competition to keep railroad rates reasonable. In recent years, the producer has gained a new bargaining weapon in dealing with the railroads—the truck. Whether as a common carrier, a contract carrier, or his own vehicle, the producer can use the truck either to carry his product all the way to market or to carry it to the water front to connect with water transportation. With some items, air ransportation is also becoming a significant form of competition.

[22] Milton S. Heath, The Rate Structure, Law and Contemporary Problems, vol. XII, summer 1947, p. 414

Finally, it should be noted that high transportation rates not infrequently worked out to the advantage of southern producers. As Heath stated it:

> relatively higher out-bound rates on such raw materials as unmanufactured tobacco, clay, and hides favor southern industry; and this is especially so when, as in these cases, the out-bound rates on products manufactured from such raw materials are the same as or lower than northern rates.[22]

If the higher rates are on manufactured goods coming into the region, they act as a protective tariff for the southern producer in the local market. His competitor outside the region is at a disadvantage because he must pay the high rate to deliver the goods to the southern market. As incomes in the South rise, this southern market becomes more attractive and more profitable.

There are other reasons to suggest that freight rates have not had the importance many attached to them. The State of Virginia is almost all within Official or Eastern freight territory and thus enjoys the lower class rates of that territory. It has most of the characteristics shared by the other Southern States and in addition is much closer to the great eastern markets. If freight rates were as important as many claimed, Virginia should be the leading industrial State of the South. While the State has made considerable industrial progress, there is nothing in its record to indicate that it has enjoyed any special advantage over the other Southern States.

Finally, there is the fact that few, if any, of the complaints about freight rates have come from leaders of southern industry. The fight has been waged mostly by political leaders, newspaper editors, and individuals with the crusading instinct. In fact, at times it has been difficult to find substantial businessmen who had grievances and who would appear as witnesses. Considered as a group there does not seem to be much active dissatisfaction with the comparative freight rates which they now have.

nternational trade policies

It has long been a standard argument of many southerners that, regardless of its effects upon the country as a whole, a high protective tariff was particularly disadvantageous to the South. The reasons for this argument were quite simple:

> The South was more dependent on agriculture than other regions and its two principal crops—cotton and tobacco—depended heavily upon foreign markets. When we had a tariff, prices of these two basic crops continued to be determined by conditions in the world market, but southerners had to pay higher prices for many of their consumer goods in the tariff-protected domestic market. Further, the tariff reduced the amount of goods other countries could sell to us and hence reduced the amount of cotton and tobacco they could buy from us. Thus much of the protection accorded to northern manufacturers was provided at the expense of southern farmers.

Twenty years ago this was a significant and valid argument. It probably was never so important in accounting for the low standard of living in the South as many of its adherents claimed because it overlooked the fact that, regardless of the conditions of international trade, the low productivity of large amounts of manpower in the production of the two crops prevented the region from attaining the standards of living prevailing in some parts of the country.

Conditions have changed greatly in the past 20 years and the effect of many of those changes has been to reduce somewhat the significance

of our own tariff policy in determining the volume of our imports and exports. The influence of tariffs upon the volume of international trade has declined throughout the world. Other factors, such as inflation, exchange controls, quotas, and bilateral agreements, are more potent and direct in their effect on international trade than tariffs ever were. It should be recognized, moreover, that the situation is now more vastly complex than it was 20 years ago. The trade controls now used are so intertwined with domestic financial, economic, and political conditions in the various countries that the removal of these controls is likely to prove an exceedingly complex and long-drawn-out affair, far more difficult than simple reciprocal agreements to reduce tariffs.

Perhaps more significant is the fact that the importance of foreign trade to the southern economy has declined greatly. In the 4 years 1925–29, the South supplied about 30 percent of the Nation's exports; in the 2 years 1945–46, only about 14 percent. This represents a continuing trend during the whole period. The dollar value of those exports in relation to the value of agricultural production, income payments, and factory production in the South has declined sharply, while in the remainder of the country that ratio has risen. In general, the South is now no more dependent upon exports in general than is the rest of the Nation.[23] Some part of the change in the South's status may have been caused by our tariff policy. At any rate we should undoubtedly have been able to export more cotton, everything else being equal, if our tariff had been lower or nonexistent. The indications are that our policy of supporting the prices of cotton and tobacco at levels well above those prevailing in the world markets has in recent years also been a factor in reducing our exports of these products. At the same time, increasing incomes have caused a great expansion in the domestic markets for cotton and tobacco. All of these factors have worked to produce this striking change in the relative importance of foreign trade to the South.

Finally, it must be noted that the South has developed quite a substantial interest in the other side of the controversy. Industry has grown in the South, both absolutely and relatively to the rest of the Nation. As is true of most new industrial areas, the products turned out by this industry are predominantly of the staple, standardized, and relatively crude types. These products are also produced by many other countries and are subject to keen competition in the world markets. For this reason, it seems possible that if there were a general reduction in international trade barriers, southern industry might experience a greater increase in competition than would nonsouthern industry. The effects of competition on the expansion of southern industry would have to be weighed against benefits to be derived by southern consumers and farmers. An increase in the rate of expansion of industries having a higher ratio of capital to labor would certainly be required as an offset if unemployment were to be avoided.

[23] The prices of two of the principal agricultural crops is still affected to a crucial extent by our exports of these commodities. The sudden disappearance of the export market for cotton and tobacco would probably be more disastrous to the producers of these commodities than would the disappearance of the foreign market for, say, automobiles. It is easier to see how an increase in domestic purchasing power could compensate for the loss of foreign purchases of American automobiles than to see how a similar increase in domestic purchasing power could offset the loss of foreign consumption of our cotton and tobacco.
See also: B. U. Ratchford, The South's Stake in International Trade—Past, Present, and Prospective, the Southern Economic Journal, vol. XIV, April 1948, pp. 361–375.

In summary, the South's specialized interest in our foreign trade policies has substantially diminished. Those policies are still important in their national and international aspects, but the South's interest in them is very much the same as those of the rest of the Nation.

Terms of trade

The typical products of the southern economy are agricultural products and the staple, more standardized industrial goods. The producers of those goods traditionally have been numerous and small; usually no small group of them has been able to control production or price. The goods are produced and sold in a fairly competitive market, where prices are free to fluctuate. For this reason, southern producers have not been in as strong a bargaining position regarding the prices of their products and not as able to influence those prices by their own decisions as are northern producers of the more highly processed and differentiated goods.

On the other hand, the goods which are typical of the non-South, and especially many of those bought by southerners, are produced by the large-scale, mass-production industries in which there are often only a few large producers and which are marked by varying degrees of monopoly or imperfect competition and by industry-wide collective bargaining on the part of labor. Prices and costs are administered and change only at long intervals and as the result of administrative decisions rather than by the act of the market. When demand weakens, the adjustment can be made by curtailing production rather than by reducing costs and prices. Thus, when supply is abundant and adjustments are necessary, southerners have to give more cotton, tobacco, and textiles for their automobiles, tractors, and refrigerators. Since monopolistic or imperfectly competitive prices are usually higher than freely competitive prices, southern products are usually at a disadvantage in this exchange. It is this price relationship that we have designated the "terms of trade" of the region.

This condition is due largely to the later development of industry in the South and to the kinds of industries which have made up that development thus far. It is being corrected to some extent by the development of the petroleum, paper, chemical, and other similar industries in the region. It should be noted, however, that to the extent that such industries are monopolistic, their expansion in the whole country is probably less than it would be if they were fully competitive. If the factors of location would normally cause a proportionately large part of the expansion to take place in the South then the South is especially handicapped by the presence of imperfect competition.

The terms of trade are also being offset to some extent by the crop control programs applying to cotton and tobacco. Farmers, too, have learned to play the game of "monopoly" (with the help of the Federal Government) and they seem to like it. It is unfortunately true, however, that this game raises other economic problems which are difficult of solution.

It is true that under the conditions described above the terms of trade are not always unfavorable to the South. During wars and boom periods, agricultural products, raw materials, and the staple manufactured goods advance in price much more than finished goods.

In such periods, the terms of trade swing in favor of the South. Thus the boom period since 1941 has done much to give the South more favorable terms of trade and has thereby contributed to the relative increase in income the region has enjoyed. Further, the region which has the poorer terms of trade takes its adjustment during periods of depression in the form of price reductions rather than in lower production. This means that employment is better maintained in that region. There may be some offsetting advantage in the higher employment, although the result as a whole is a net disadvantage.

Financial institutions

It was noted above that the comparative scarcity of investment funds in the South is a barrier to economic development, especially in relation to small- and medium-sized business units. It appears that the scarcity is due in part to the fact that the financial institutions do not assemble and make available the savings which take place in the region. There are no true savings banks in the region, and southern commercial banks have lower proportions of time deposits than do banks outside the region. In many communities, commercial banks are the only financial institutions operating, and the amount of long-term investment funds which they can or should supply is limited.

The volume of business done by southern life-insurance companies is probably not more than half of the insurance carried in the region. This means that there is always a drain of savings out of the region in the form of insurance premiums. It is true that those funds, and sometimes more, come back into the region as investments, but this return flow fluctuates widely. It disappears in years of depression and panic and it is rarely, if ever, available to small business units. Since insurance is such an important factor in modern economic life, this is a very important part of the investment problem. In the past 20 years, southern insurance companies have been growing fast, both absolutely and relatively, but they still do less than 10 percent of the Nation's insurance business. One factor which apparently prevents an even more rapid growth is the fact that the net rates of the southern companies are much higher than the rates of the large mutual companies in the North and East. For the larger, more efficient southern companies, the higher rates mean principally higher profits to the stockholders (there are no large mutual companies in the region), while for the smaller companies they go largely to cover higher costs, commissions, etc., especially on the larger amounts of industrial insurance they write.

No comprehensive data are available on investment-banking facilities, but it is clear that they are quite small on any basis of comparison. The region has no security exchange worthy of the name, and over-the-counter markets are very elementary in character. Savings of the region represented by postal-savings deposits, United States savings bonds, and shares in savings and loan associations are roughly in line with income received in the region, but these funds are not available for industrial use.

If incomes in the South increase in the future, savings should rise even faster, and the problem of managing them will become more important. What is needed is a more adequate system of financial institutions which will not only mobilize more of those funds for use in the region but which will also provide more suitable investment

opportunities for the different types of funds. Exactly how this could be done is not apparent at this time.

III. The Basic Elements of a Program to Overcome the Economic Lag of the South

THE IMPORTANCE OF NATIONAL FULL EMPLOYMENT TO THE SOUTH

The economic experience of the South during the war and postwar periods sheds significant light upon ways to overcome the lag in economic well-being of the South. The improvement in per capita income in the South in relation to the non-South during this period reflected primarily the effects of full employment and a generally dynamic period of demand for goods and services throughout our whole economy. It is true that this period was dominated by the war and its aftermath, but most of the characteristic economic developments of the period would almost certainly characterize any period of like intensity of business activity.

Special advantages of full employment to the South

During such a period of business activity the South benefits relatively even more than does the Nation as a whole. Since the region is characterized by a high birth rate, in times of depression or less than full employment, this potential labor supply "backs up" on the farms and in the rural areas to a greater extent even than would be revealed by geographical break-downs of unemployment statistics. Under such conditions there is an immense amount of "disguised unemployment" and underemployment. The coming of a period of full employment consequently means not only the employment of the "statistically unemployed" but also means full employment for the underemployed and the "disguised unemployed." Further, full employment means the transfer of men out of less-productive occupations such as agriculture to more lucrative employment in industry.

If southern labor had to depend primarily upon expanded employment opportunities outside the region, we could expect little relative improvement in per capita income in the South in boom times. There would, of course, be some increase, even then, due to the higher wages which would have to be paid in industry located in the South as labor became more scarce. However, it is during periods of full employment in the economy that conditions are most favorable for the operation of other forces which have long-term and basic effects in improving the per capita level of income in the South in relation to the non-South.

It is inevitable that periods of full employment should be the ones in which a greater number of new industries are started. The greatest single obstacles to the construction of new industrial plants in the South has always been uncertainty concerning the market for the goods which would be turned out by new plants if they were actually to be constructed. During periods of full employment, there is less doubt about the possibility of selling goods produced by new plants.

During a period of dynamic demand the only limitation on construction is the availability of capital funds, building materials, and machinery. If they can be obtained, plants will be built. Actually, although severe shortages of building materials and machinery to

equip new plants hampered construction, capital funds were available to build many in the South immediately following the war in order to take advantage of the available labor supply as well as the other advantages of location afforded in the region.

The slackening of construction of new plants which began to appear in 1949 reflected no shortage of capital and still less of building material and equipment, which by that time were in far easier supply than at any time since the war began. The slackening reflected a worsening in the prospects for the sale of the goods which might be produced in the plants if they were to be built.

Despite widespread fears of unemployment, which was perhaps more feared for the South even than for the rest of the country, almost no unemployment developed during the first 4 years after the war. This was true in spite of the fact that millions of men formerly in the armed services plus labor released from war plants had to find employment. This, too, in spite of the fact that the acreage in cotton in the South during this period was scarcely half what it had been in 1929.

The volume of labor which found employment in the peacetime economy of the South after being released from wartime employment indicates indeed that, if one could assume that the same dynamic demand for goods and services would continue to characterize our whole national economy, the absorption by the southern economy of any additional labor which might be displaced by the mechanization of agriculture—and particularly by the mechanical cotton picker—would probably present no extremely serious problem.[24]

Another factor favors the South during a period of dynamic demand for goods in the national economy. Industries which have to sell their products under the handicaps of "old-fashioned competition" when boom conditions do not exist—and which were consequently compelled to sell their products at low prices—find that, during a boom, competition does not prevent them from selling their products for all the traffic will bear. During depression, the traffic will bear only unprofitably low prices. During periods of boom, the traffic will bear very profitable prices. By contrast, the prices of commodities which can be maintained at relatively favorable levels during depression conditions due to "imperfect competition" do not usually advance proportionately during boom times such as those of the postwar period. Executives of very large corporations responsible for the pricing of such commodities generally do not care to set prices as high as the traffic will bear during a period of inflationary pressure, due to their fear of public reaction in general or to the threat of Government price control in particular.

Thus, during the recent war and postwar period, the price of textiles advanced substantially more than the price of durable manufactured goods such as automobiles, refrigerators, and the like. In consequence, the South, a heavy producer of textiles, benefited by better terms of trade and received more automobiles and refrigerators from

[24] One estimate of the number of persons who might be displaced by the mechanization of agriculture during the next 20 years is somewhat more than 2,000,000 persons. Op. cit., Economic Problems of the Cotton Belt, p. 621. This estimate is no more than half of the number actually absorbed by the peacetime economy out of wartime employment in the armed forces and in war industries. The latter number can hardly have been less than 4,000,000.

Another estimate points out that no more than half the farm labor force on farms in the South in 1942 would be necessary today if improved methods of production now known were put into effect. It is extremely difficult, however, to forecast how rapidly mechanization and other improvements in the technique of agricultural production will actually occur.

the non-South in exchange for its cotton textiles than during the prewar period. This situation was reflected in the relatively greater increases in the wages of textile workers during the period than in the wages of automobile workers as well as in the higher profits of the textile industry.

Furthermore, in seeming paradox, during periods of full employment, governmental price-support programs, such as those for tobacco and cotton, tend to work out favorably for southern farmers.

After the Agricultural Adjustment Act came into operation, tobacco, which farmers formerly had to produce and sell on a market which was certainly not characterized by pure and perfect competition, could be sold on terms much more favorable to southern growers than before. Even had there been no governmental production control and price-support program for tobacco, growers would have benefited by the additional demand for their product which inevitably accompanied the dynamic conditions of demand under full employment. With both a greatly increased demand and a governmental production control and price-support program, tobacco growers were doubly blessed. Instead of enormous profits for the tobacco companies, tobacco growers profited from this lucrative combination of quasi monopoly with dynamic demand.

To a somewhat lesser degree the same situation characterized cotton, with the difference that cotton production shrank substantially during the war and immediate postwar periods because even more lucrative employment could be found in industry than in the growing of cotton. Furthermore, the "mill margins" of textile manufacturers could not be held down to the advantage of cotton growers as the margins of tobacco manufacturers had been held down to the advantage of tobacco growers.

Due to all these circumstances which favored the South in the war and postwar periods, the improvement in per capita income in the South in relation to the non-South was substantial, even though not spectacular.[25] If the rate of increase in per capita income had continued without slackening, the rate at which the economic lag of the South behind the non-South was being closed up might have been considered reasonably satisfactory.

Full employment: A national responsibility

Thus the pattern of the South's immediate postwar economy furnishes, in some of its aspects, the outlines for the kind of economy which would permit the South to overcome its lag in economic well-being. A program for the future, based upon recent experience, would have to provide, above all, for full employment in the national economy. Conditions of dynamic demand—for the products of southern agriculture and for the products both of existing industrial plants and of additional industrial plants necessary to provide employment for surplus labor in the South—are essential for any effective policy with respect to either agriculture or industry in the South. The fact that inflation may be as serious a threat as is depression to our economic system does not vitiate the importance of full employment to the South.

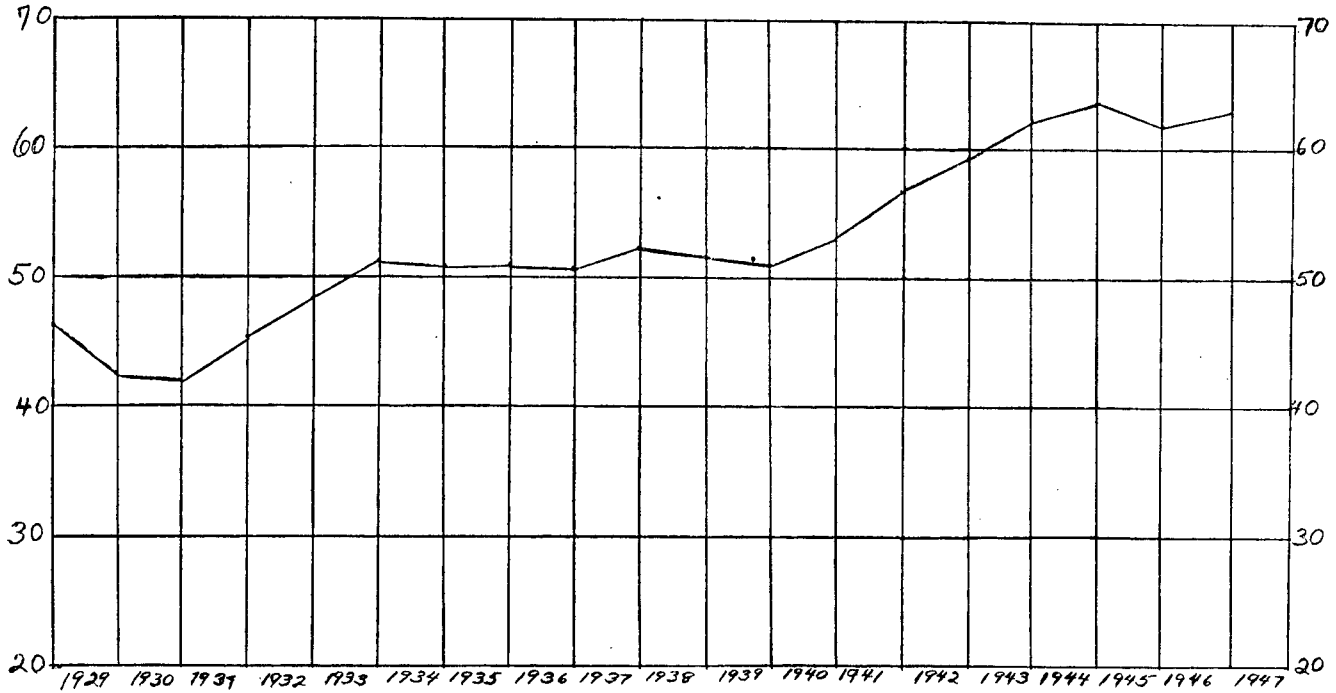
The maintenance of full employment in the economy is primarily a national rather than a regional problem. It is true that disastrously depressed conditions among cotton growers and tobacco growers make full employment in the rest of the country difficult or even impossible to attain. Consequently, appropriate economic policies in relation to particular sectors of our economy and for the various regions of the

[25] Per capita income in the South as a percentage of per capita income in the non-South increased from 52 percent in 1939 to about 63 percent in 1945–47. Per capita income was $322 in the South in 1939. It had reached $925 in 1947. See chart on p. 40.

PER CAPITA INCOME PAYMENTS IN THE SOUTH

AS PERCENT OF PER CAPITA INCOME PAYMENTS

IN THE NON-SOUTH, 1929 -- 1947



United States are an essential element in carrying out national policy expressed in the Employment Act of 1946 and in the fulfillment of the functions of the Council of Economic Advisers.

For the maintenance of full employment, we must depend primarily on the fiscal and monetary policies of the Federal Government, on the relation between the volume of consumption, saving, and investment in the economy; and on keeping wage rates and profit levels in industry in proper balance in the country as a whole. If the basic elements of our economy get out of balance to such a degree that serious unemployment arises, it is upon the Federal Government that we must depend to initiate public-works programs and other emergency devices in order to maintain national purchasing power until such time as more fundamental readjustments in the economy can be undertaken.

The role of the Council of Economic Advisers in recommending proper economic policies for government, for industry, for agriculture, and for labor is of great potential importance in this connection. Unhappily, it is not easy to plot the course of stable full employment between the Scylla of depression and the Charybdis of inflation. It is not easy to recommend the precise timing of tax increases and reductions, of budgetary surpluses and deficits, of wage increases (wage decreases would rarely be practicable), and the host of other economic actions which make up the composite of economic conjuncture. Nevertheless, it is certain that these economic actions can hardly be left to chance any longer or to the unfortunately impaired automaticity of a system of economic laissez faire. The creation of the Council of Economic Advisers by Congress recognizes this necessity and legalizes an institution for grappling with these problems.

THE REORGANIZATION OF SOUTHERN AGRICULTURE

A second major element in the program for the economy of the South in which progress toward a higher per capita income could take place would be an adequate price and production policy for southern agriculture.

It is indeed arguable that if full employment and full competition in the national economy and increased freedom of international trade could be attained and maintained, any governmentally controlled price and production policy for southern agriculture would be neither necessary nor desirable. Nevertheless, there is certainly going to be a governmental price- and production-control program for southern agriculture if for no other reason than because the political power of the farm vote will insure that this will be so. Furthermore, the farmers of the South, like those in the rest of the country, are not willing to allow their economic well-being to depend upon the chance of having full employment, full competition, and full and free international exchange of goods and services. In a world in which almost all other economic groups engage in collective bargaining, the farmer also demands his own peculiar kind of collective bargaining.

There can be little doubt that cotton and tobacco farmers will fare better under the kind of control program they are likely to get than under no program. It is perhaps not so certain that the general interests of the average citizen of the whole country will be better served by the program which actually eventuates.

Problems in the use of governmental power to raise farm incomes

The experience of both tobacco and cotton growers with governmental intervention and control up to now has demonstrated that—on the assumption that the same growers are to continue to produce these crops—they can obtain through Government programs sufficient control of production, price supports, general and special subsidies, various types of benefit payments and the like to raise their per capita income substantially over what it otherwise would be. It is not very convincing to point out to cotton growers that even doubling the price of cotton through governmental action, for example, would not raise per capita farm income in the South to the level of the Iowa farmer. The southern farmer is likely to retort that the absence of price supports by Government would not insure such an income level either.

The question no longer is whether the per capita incomes of the producers of the staple crops of the South can be increased by governmental action. Experience has proved that this can be done. The pertinent questions are:

First: To what extent should economic groups be permitted to use the power of government to increase their income?

Second: Will any given form of governmental intervention dangerously hamper progress in the mechanization of agriculture, increase in the size of farms, improved farm practices, and shifts to more profitable crops which must be relied upon for fundamental improvement in the level of income of southern farms?

The problem of the use of political power to accomplish economic purposes is not primarily one in relation to agriculture, but applies as well to the profits of corporations and to the wages which might be obtained by labor unions through collective bargaining facilitated by the use of governmental power. It raises with great force the question of whether a body which represents the interests of the whole country rather than those of separate regions or economic groups is not needed to consider the general welfare when decisions which affect that welfare are being made.

The need is crucial for such a body to carry on economic analysis, to explore economic issues, and to stimulate industrial, agricultural, and labor groups to apply objective economic criteria to the solution of conflicts of interest. Once more, the function of the Council of Economic Advisers in this field could be of great importance in facilitating the maintenance of a proper balance of our economy.

Furthermore, governmental intervention in the cotton and tobacco economies, while undoubtedly beneficial to the growers who have a historical base, has demonstrated serious shortcomings in respect to the most economically advantageous allocation of resources. The support of cotton and tobacco prices has probably helped to "freeze" production patterns in these commodities and limit desirable adjustments toward better agricultural production practices.[26] In the absence of any controls during the last decade and a half, the production of cotton would probably have shifted more rapidly than has actually been the case toward the more level and fertile areas where production costs are lower. Furthermore the use of allotments in tobacco and cotton, together with the relatively higher price brought by controls, has made it possible for uneconomically small farms to continue in existence. This perpetuates the present level of per capita productivity on southern farms which is so low compared with that of

[26] It is arguable, however, that considering the whole period of governmental control, crop production is more diversified than if no control program had been in effect.

midwestern farms, for example. Finally, governmental intervention through export subsidies, either outright or virtual, on cotton, wheat, and tobacco, have caused substantial difficulties in carrying out our national policy in international trade.

Increased productivity essential for increase in southern farm incomes

If governmental crop control and price supports are not by themselves a satisfactory program for southern agriculture, what are the elements of an adequate policy?

As pointed out above, the control programs for cotton and tobacco have demonstrated that the terms of trade for the growers of these southern staple crops can be improved by such programs. Nevertheless, it is certain that the most effective source of increased farm income per capita is increased productivity per person employed in agriculture. Increased income obtained simply by raising the price of cotton and tobacco has two serious shortcomings:

Raising the price per pound will lower the amount that can be sold without subsidy, even though the price elasticity of both raw cotton and tobacco on the domestic market be low. Consequently, there is a decided limit upon the extent to which total income can be increased through simply raising the price of agricultural products.

It is even more important that, all else remaining the same, gains in income to growers through price increases must be at the expense of consumers. Increases in income that are the result of increases in output per man-hour, however, result in advantages which are likely to accrue to the consumer as well as to the producer.

Means for increasing per capita productivity in agriculture

It probably is not feasible to count upon a satisfactory rate of increase in the per capita income of persons employed in agriculture if the number of people engaged in farming remains as high as it is now. The increase of productivity per man-hour to a satisfactory level must depend both upon mechanization of agriculture and upon changes in the type and methods of production in agriculture which combine to reduce the need for manpower while lowering cost of production.

If the number of workers on the farm remained unchanged, income per capita could be increased with difficulty, wages would remain low, and mechanization and the reduction of costs of production would be slowed up. A high ratio of population to cropland has been the basic factor in low per capita income in southern agriculture. In 1940, harvested cropland per capita of the farm population in eight Southern States (Alabama, Arkansas, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, and Tennessee) averaged 5 acres as compared with 15.2 acres in four Midwestern States (Illinois, Indiana, Iowa, and Ohio) and 10.5 acres for the country as a whole.

To a considerable degree, low per capita income in southern agriculture reflects also the failure to develop labor-saving methods in the production of cotton and tobacco at the rate which has characterized development of such methods in the production of other crops.

During the past century the amount of man-labor required to produce a unit of wheat was reduced by four-fifths, corn by seven-tenths, and cotton by slightly more than one-half. In 1880, a farmer could produce 200 bushels of wheat with the same amount of labor required to produce a bale of cotton, while at the present time he can produce over 400 bushels with an equal amount of labor.[27]

[27] These data are from an unpublished speech by Dr. Frank Welch, Adjustments in Southern Agriculture and Farm Labor Requirements, January 29, 1949.

The trend toward different types of production during the last decade has been in a direction which is essential if per capita income in southern agriculture is to reach much higher levels—levels which are assuredly attainable.

Acreage in cotton between 1930 and 1944 shrank by more than half, although it has increased somewhat from its lowest point. Almost one-fourth of the farms which had previously produced cotton ceased entirely to do so during this period. The average yield of cotton per acre increased from 157 pounds in 1930 to an estimated 312 pounds per acre in 1948.

While this reduction in cotton acreage was taking place, the acreage of open pastures increased by 42 percent.

Acreage in hay, soybeans, small grains, and other crops also increased.

Dairy cattle increased some 40 percent in number during roughly the same period.

All other cattle increased by 71 percent.

Chickens on farms increased by 34 percent.

Livestock and livestock products accounted for 20.9 percent of total cash farm marketings in 1928–32 and 29.6 percent in 1945.

This shift in type of production was definitely in the direction of greater value of output per capita.

While this shift in the type of agriculture was going on a reduction in the labor force employed on farms was also taking place.[28] Even though the mechanization of cotton has been greatly hampered by inability of the agricultural machinery industry to meet the demand for mechanical pickers and strippers during the war and immediate postwar periods, substantial progress has taken place. The number of tractors on farms has increased from 1940 to 1947 by well over 300 percent.

The possibilities for further mechanization of cotton production are very great. One study made at the Delta Branch Experiment Station at Stoneville, Miss., showed 160 man-hours required to produce and harvest an acre of cotton under standard nonmechanized methods. Using mechanical methods thus far advanced, an acre of cotton yielding nearly a bale of cotton was produced and harvested with 21½ man-hours of labor. Actually the financial advantage of fully mechanized methods depends upon the particular set of conditions on the farm producing the cotton. In some cases the financial advantages of mechanization are substantial. In other cases, where the land is not level, where the acreage to be harvested is small, and for other reasons, mechanized methods of production are not economical. Yet there can be little doubt that mechanization of cotton production is well under way and will continue to progress, with a consequent diminution in the amount of labor required.

A further change which would represent economic progress is a shift toward the type of agriculture which permits more continuous use of the labor supply on the farm and avoids the underemployment which has characterized southern agriculture. Thus in Mississippi in 1944, farmers worked 567 percent more during the month in which they were busiest than in the month in which they worked least. In Iowa the figure was only 167 percent.[29]

[28] Between 1935 and 1945 the average number of persons employed in agriculture in the South declined from about 6,000,000 to about 5,000,000. One year later, however, there had been an increase of about 100,000 persons. Bureau Agricultural Economics, U. S. Department of Agriculture, Farm Wage Rates, Farm Employment and Related Data, pp. 162–164, 1943; Agricultural Statistics, 1947, p. 503, U. S. Department of Agriculture, Washington, 1948.

[29] A considerable portion of the data dealing with southern agriculture has been taken from speeches and articles by Dr. Frank Welch, and particularly from his unpublished speech of January 29, 1949, referred to earlier, Adjustments in Southern Agriculture and Farm Labor Requirements.

The substitution of other types of farming for cotton and tobacco tends to correct this uneconomical labor requirement during the "peak load" season. This trend toward other types of farming is already well under way. It has been estimated that the development of more efficient agriculture in the South would be accompanied by a reduction of about one-third in the farm population directly dependent upon farming as a major source of income.

Employment of displaced agricultural labor depends upon industrial expansion

It is obvious that a program for southern agriculture, which assumes a great increase in production per capita together with a lowering of the cost of production through mechanization and a shift in type of agricultural production, could be of advantage to the South and to the Nation only if the labor no longer needed in agriculture could find productive employment in manufacturing, in commerce, and in the service industries. Improvements in the efficiency of agriculture which would permit increased production while dispensing with the need for employment on the farm of one-third of the existing population would raise the specter of mass unemployment. As has been pointed out, however, the reemployment of manpower released from the armed forces and from war industries demonstrates conclusively that under favorable economic conjuncture no unemployment need arise.

The absorption of workers displaced by the development of greater efficiency and productivity in agriculture could be counted upon however, only if the demand for consumer goods and the expansion of industry were to remain at a tempo not greatly below that of the period immediately following the war. If a considerable volume of industrial unemployment were to occur it would be absolutely essential that both emergency and long-term measures to deal with it should be undertaken by the Federal Government. Public works programs and other emergency measures coupled with more basic measures designed to encourage the expansion of employment in industry would be required if desirable adjustments in agriculture were to have a chance to be accepted as socially desirable.

In summary, the major test of a desirable policy for southern agriculture would be whether it facilitated the development of desirable trends in southern agriculture which have been under way for more than a decade. It is with this in mind that proposals for the writing of new Federal legislation for control of production and the support of prices of cotton and toabcco should be considered. Legislation which would freeze the cotton-tobacco pattern of production would plainly be undesirable. On the other hand, legislation to insure against a collapse in agricultural income on a scale serious enough to affect national economic stability such as took place in the early thirties is obviously necessary. It is hopeless, however, to try to prevent or cure large-scale unemployment primarily through agrucultural price and production control programs. The attempt to do so is likely to result in legislation badly designed to accomplish what can legitimately be expected from farm price and production control legislation. Specific proposals for Federal legislation designed to carry out the limited purposes appropriate for such legislation are taken up in chapter IV of this report.

EXPANSION OF SOUTHERN INDUSTRY

It is primarily upon an expansion of manufacturing that dependence must be placed for employment of labor no longer needed in agriculture. Much of labor displaced by more productive methods in agriculture will normally be absorbed by the so-called service industries. However, the expansion of employment in manufacturing must provide most of the increase in incomes necessary to pay the wages of those employed in the service industries.

Although substantial industrial expansion is occurring in the South, there can be no doubt that even greater expansion would be highly desirable. There is no magic formula, however, which will make manufacturing plants spring up where none existed before.

Something can be done through community development corporations which furnish capital or buildings or other facilities to attract new industries. Even so, possibilities in this direction seem quite limited.

There is little evidence that the decisions of corporations which are in a position to build large plants employing substantial numbers of workers are much affected in locating new plants by such efforts on the part of municipalities.

This is not to decry the importance of small-scale industry, however, since such are essential if numerous small "pockets" of surplus labor are to be absorbed. Furthermore, these small industries are sometimes the kernels from which larger manufacturing establishments develop.

Increased productivity of southern labor

It is obvious that the South needs industries in which the value product per worker is much above the existing average in southern industry. The low value product of southern industry, which is the principal limiting factor upon the level of wages in the South, is in some degree a reflection of the lower skill and technical training of southern workers. Whatever can be done through Federal aid to general education and technical training will help to remedy this.

There can be no doubt, however, that the relatively low skill and training of labor is not the major factor in the low average value added per worker in southern industry. In large degree the low value productivity of southern labor simply reflects employment in industries which have low value added per worker whether located in the South or in the North. It is very doubtful, for example, whether the value productivity per worker in southern textile mills is any lower than it is in the northern mills, although a small but declining wage differential still exists in the industry. In printing, in manufacturing agricultural equipment, in automobile assembly plants, and in pulp and paper mills, there is little if any evidence that after an industrial plant has been in operation for several years labor productivity is any lower in the South than in the rest of the country.

Problems and motivation of locating industrial plants in the South

It is obvious that what the South needs is more industries in which the use of modern machinery and the opportunity to sell the product on favorable terms enables a high rate of production per worker.

The need is easily stated—the method of attainment much more difficult. In large measure the low value per worker in southern

industry simply reflects a historical lag. Industry developed later in the South and the first industries to develop were those which could use large amounts of low-paid labor—just as has been true historically of economic development in almost all countries.

It is often impossible to place a particular plant in an area and location independently of the plant's relation to an entire industrial complex. Thus, the areas where different plants of the machine tool industry are at present located were not chosen because they are inherently the most favorable areas for the machine-tool industry itself, but because of the intimate relation between the machine-tool industry and the other industries which constitute the market for the products of the machine-tool industry.

Likewise the location of one new industrial plant in the South may be dependent upon the location of one or more other plants. This is illustrated by the case of a large plant for manufacturing containers which was built in a large southern city but which was not occupied by the company planning to manufacture the containers because the officials of another company which had intended to build in the same community a plant which would use the containers changed their minds and did not build their plant.

The further development of financial institutions such as insurance companies, savings banks, investment banks, and the like would greatly facilitate the mobilization of the savings of the population of the South for investment in new industries or for the expansion of existing industries. During recent years, however, there have apparently been few cases where the establishment of new industries has been limited by the shortage of capital to finance them. The effect on the South of the situation in American industry where new plant construction comes so largely out of "plowed back" earnings of existing corporations has yet to be seen. It is possible that the provision of capital funds for plant construction through some governmental financial institution such as the Reconstruction Finance Corporation might prove necessary to the future.

The need for more entrepreneurs who can recognize and develop profit opportunities in the South is probably more important than the need for capital. The opportunities for further processing of all manner of food products which are produced or could be produced in the South have by no means been fully seized. There can be no doubt that the marketing arrangements for such commodities have not been adequately developed and that great potentialities exist in this direction.

The great need for the further expansion of southern industry should not obscure the fact that southern industry has been expanding at an impressive rate, as has been pointed out in chapter I. The NPA Committee of the South report by McLaughlin and Robock, which investigates the causes for the location of a sample of new industrial plants, demonstrates the strength of the motives which impelled the management of these industrial corporations to locate in the South.[30]

The wish to locate plants so that the southern market could more cheaply be supplied, so as to spread the risk of shut-downs due to causes particular to one geographical area, to be more advantageously

[30] Op. cit., New Industry Comes to the South. The full-length analysis of location decisions for 88 new southern plants is being published in book form. Why Industry Moves South, NPA Committee of the South Report No. 3, 1949. Washington.

located with reference to costs of shipping raw materials and finished products, to take advantage not so much of lower wage rates but of greater labor supply, have been sufficient to cause industrial plants in the South to be built at an impressive rate. Given the maintenance of generally adequate national demand for the products of industry, there is no reason to suppose that the rate of expansion of industry in the South will diminish.

The interests of the South will, of course, be served in the most basic way by any factors which can accelerate this rate of industrial expansion. Under our present system of modified free enterprise the major incentive to industrial expansion in the South must remain the prospect of profits for new industrial plants. It is just as true that such profitability must itself depend upon our national ability as consumers to purchase the products of these new plants. The maintenance of a state of economic conjuncture which would make possible both profits for industry and purchasing power for consumers has become increasingly the function of the Federal Government.

WAGE AND LABOR POLICY

The experience of the war and postwar periods affords a substantial basis for a wage and labor policy for the South during the years ahead. During this period, viewed as a whole, both money wages and real wages rose. There was some narrowing of the differential gap between wages in the South and non-South. There was apparently no striking change in the South in the percentage of all industrial labor in unions during the war and postwar periods. Collective bargaining nevertheless came to be pretty generally the pattern for wage determination in industry. This came to be true in the textile industry, pulp and paper industry, steel industry, and oil industry, even if unionization was far from complete. Even mills which succeeded in keeping unions out had to adjust their wages with this end in view. For the South, this represented a fundamental change from the days before the New Deal when labor unions were largely confined to railroads, printing, and a few other trades.

The North-South wage differential

Given national full employment and the concurrent dynamic demand for consumption goods, it became evident that southern industry was not dependent upon low wages in order to be able to produce for the national market. For example, by the beginning of 1949 the differential in the textile industry between minimum wages paid in large plants in the South and similar mills in the North had shrunk to less than 10 percent.[31]

One might argue that as far as wages and labor were concerned, the best policy would simply be that of "hands off" and let the competition of employers for labor and of laborers for jobs set wage rates. The day when wages could be determined "by the natural forces of the free market" is, however, long past. Collective bargaining is a fact and no one can longer pretend that wages are set by individual bargains between employers and employees.

[31] In most industries the differential minimum wage continued to be substantially larger. Average wages in a considerable number of selected occupations in the South in 1945–46 were 85 percent of those in the Northeast. Joseph W. Bloch, Regional Wage Differentials: 1907–46, Monthly Labor Review, April 1948, p. 375, U. S. Department of Labor, Washington.

The minimum wage

A definite wage policy is a virtual necessity. Wage policy is usually thought of in terms of a minimum wage. A strong case can be made for setting a minimum wage by Federal action on the grounds that if some employers cannot pay so high a wage the national interest would be better served by having such laborers on relief—if they did not choose the alternative of migration. The payment of substandard wages may even retard the movement of labor to more productive employment. In the main, however, the case for a minimum wage must rely upon the assumption that the majority of employers are already paying the minimum wage or higher, or that they can raise wages to the required level through increasing the efficiency of production or by raising prices. It is obvious that such a minimum wage must not be so high as to cause such a considerable volume of unemployment that total production in the entire Nation would be appreciably lowered or that unemployment would be greater than the resources of the public purse could carry. As is pointed out later, the authors believe that the present minimum wage should be substantially increased.

It is less well-recognized that there is also a problem which might be called that of the "maximum wage." The problem of determining the maximum wage which a given industry can pay without unduly raising prices to consumers and without discouraging expansion of industry—while permitting adequate contributions to the costs of government through taxation of the profits of industry—has not yet been solved. Wage policy—like the maintenance of full employment, the prevention of inflation, and the determination of a proper price and production policy for agriculture—is fundamentally a national rather than a regional problem.

Here again is a clear necessity for the development of a national policy in the interest of the country as a whole, which would prevent the unrestricted use of economic power by industrial corporations or labor unions in order to obtain an undue proportion of the national income for particular economic groups and subgroups. The role of the Council of Economic Advisers in synthesizing the factual picture, in promoting a better understanding of the operation of the total economy, and, finally, in stimulating the various segments of the economy to understand their true long-run interests could be of great significance.

INTERNATIONAL TRADE

The South has the same interest as does the rest of the country in seeing world trade expanded and made as free as possible from restrictions. However, in a world in which fully collectivized, governmentally controlled and partially controlled economies have so largely replaced free-enterprise economies, there is no possibility of returning to the pre-1914 world. Institutional arrangements and agreements, such as those embodied in the International Monetary Fund, the International Bank for Reconstruction and Development, and the proposed International Trade Organization, represent efforts to cope with new developments in world trade.

The South and export subsidies: "Export dumping"

It would be no more sound for the South to count upon international trade as a means simply of dumping "surplus" production in foreign countries than for the country as a whole to make a similar calculation. The concept of the United States producing a net "surplus" of commodities beyond our ability to consume is not only nonsense—but thoroughly mischievous nonsense. Such ideas lead to export subsidies to assist in dumping "surplus" commodities abroad and to tariff and other barriers against the import of goods which are the only sound way to pay for our exports. A policy of export subsidies combined with import barriers not only works to the economic detriment of the United States but arouses the maximum of resentment against the United States.

It is not so generally recognized that a policy of extending a very large volume of uncollectible loans and gifts to foreign countries, if not wisely administered and if not limited to the emergency period following the war, amounts in effect to a generalized subsidy on our exports. Such a policy, very much as in the case of particular export subsidies, can arouse great resentment abroad and can be used as the basis for charges of "imperialistic pushing of American trade."

Considerable conflict of interest has already arisen, for example, in the case of the sale of American tobacco in Europe under the Marshall plan in competition with Greek and Turkish tobacco. The representatives of southern farmers argued that since we were providing free grants for the purchase of commodities from the United States under the Marshall plan, these funds should certainly be used for the purchase of our surplus commodities. The Turkish and Greek representatives argued that if American tobacco displaced their own in European markets they would never be able to pay for imports through the sale of their tobacco in the export trade.

Extraordinary financial aid to foreign countries such as the Marshall plan is overwhelmingly justified by existing economic and political consideration as a 4-year program. It would most emphatically not be justified if it degenerated into a scheme for "getting rid of surpluses" without any terminal date.

It must be recognized that the South is likely to be more susceptible to schemes for export-dumping than the rest of the country. For the country as a whole, a billion dollars appropriated by the United States Government for social security, for building roads, hospitals, and the like, has just as great effect in maintaining demand for the products of American industry and agriculture as does a billion dollars given as a grant-in-aid to, say, the Patagonians to enable them to pay for imports from the United States. In the case of the agricultural staples, such as cotton and tobacco, however, it must be admitted that an additional billion dollars given away to foreigners by our Government is likely to have a somewhat greater effect in increasing the demand for these commodities than is an equal amount spent domestically for relief, or for public works, or the like. This is likely to be true because of a somewhat greater elasticity of demand for these commodities by foreign consumers than at home, when sufficient money to alleviate any so-called dollar shortage is provided without cost to the recipient governments.

Nevertheless, it is unsound economically for our Government to finance the disposal of our goods on the foreign market, under normal circumstances, by any other means than by full payment—which

means payment through our receipt of goods and services produced abroad.[32]

It would be idle to maintain that there are not very substantial difficulties in the way of our receiving additional quantities of goods and services in payment for this country's exports. Certainly if we fail to maintain a state of reasonably full employment it would prove almost impossible for us to allow enlarged quantities of goods to come into the United States at the same time that our own factories and labor were idle. The answer to this, however, lies not in erecting barriers against imports but in taking appropriate measures to maintain domestic full employment. Consequently, the interests of the South—like those of the rest of the country—will be served best by extending the program for facilitating payment for our exports through enlarged imports under our reciprocal trade agreements policy.[33]

Diminishing role of foreign trade in the southern economy

Finally it should be noted that the dependence of the South upon foreign trade has been diminishing. The proportion of cotton and tobacco production which is exported has decreased notably.[34] Southern manufacturing has steadily increased its importance in relation to the production of agricultural products for export. The domestic market is far more important to southern industry than is the foreign market. This means that the day when the economic policy of the South could largely be summed up in advocacy of free trade versus the protective tariff demanded by northern manufacturers is gone.

Freer and larger international trade is desirable for the South as for the rest of the Nation and for the world. It is, however, no longer the primary factor in the economic well-being of the South.

NATURAL RESOURCES DEVELOPMENT

Power

The success of TVA has demonstrated the potentialities of a coordinated program of resources development under the guidance and with financial aid on a grand scale from the Federal Government. There apparently does not exist in the South further opportunities for the development of hydroelectrical power on the dramatic scale of TVA.[35] It has been estimated, however, that there is about twice as much undeveloped water power in the South as has yet been developed. Although this probably grossly overstates the actual economic possibilities of such development, it does indicate that a substantial field for development still exists and deserves exploitation.

Additional power, whether from water power, coal, or even from atomic power, is of course essential to the expansion of southern industry. With judicious guidance and financial aid by Government

[32] This of course includes payment through the use of the proceeds of American loans made abroad under circumstances in which these loans can be serviced by the import of goods and services into the United States.

[33] The principal factor determining the volume of our imports is the level of our own industrial activity. Consequently both hopes and fears which stem from the effect on the volume of our imports of reducing our protective tariff are largely exaggerated.

[34] In 1926–29, about 58 percent of our cotton production was exported; in the years 1945–46, only 37 percent. For tobacco, the proportion decreased from 40 percent to 26 percent during the same period. These figures represent a general trend for the period.

[35] It has been suggested that the Arkansas Valley might offer substantial possibilities of this sort. The authorities are unable to pass judgment upon this suggestion.

in the development of power resources there seems little reason to fear that the development of southern industry need be limited by shortages of power available at economical rates.

Forests

With the advantages of a long growing season and with plentiful rainfall, the forests of the South constitute a resource of major economic importance. A program is essential for increasing the growth output of southern forests to meet the needs of an expanding pulp and paper industry in addition to the needs for lumber. The role of the Federal Government in this field has been well developed and is susceptible of effective expansion.

Soils

Soil depletion and erosion is a long standing problem in the South. Heavy rainfall, the planting of row crops, and the character of much of the soil has caused the South to suffer more from this particular economic malady than any other region. Developments in the use of soil-improving legumes and grasses, the use of fertilizers in the utilization of the various subsoil types, and in physical means for controlling erosion afford promise of success in correcting and curing the evils of soil depletion and erosion. It is highly desirable that Federal-State cooperation in this field should continue and that payments of benefits to farmers in any crop-control, price-support programs should be tied to requirements for soil conservation and improvement.

EDUCATION

The combination of a high birth rate with low per capita income made it inevitable that educational opportunities for the population of the South would be much poorer than in the non-South so long as the South had to rely on its own economic resources. This low level of educational opportunity, in its turn, served to perpetuate low per capita income in the South. Consequently, very strong arguments can be made for Federal aid to education so that the value productivity of the worker in southern industry and of the southern worker who finds employment outside the South may be raised. Fear that Federal aid to education will become Federal control and regulation of education remains the most substantial obstacle to the implementation of a policy which is otherwise so obviously desirable.

IV. Specific Federal Policies and Programs for the Southern Economy

The essence of the economic problem of the South with which Federal policy must deal can be restated very simply. The per capita wealth and income of the South is much below the national average. During the last two decades the relative difference in these two items between the South and the non-South has diminished somewhat but still remains large. Low per capita income reflects—

(1) Ratio of capital and natural resources to population.
(2) Unfavorable terms of trade.

The economic problem of the South, as the Federal Government confronts it, thus is simply that of how per capita wealth and income in the South can be effectively raised.

Low per capita income in the South stems from a low ratio of natural and capital resources to population. The low status of the population in education and in training for industrial production accentuates the poor ratio of natural and capital resources to population but the low level of educational opportunity likewise reflects low per capita wealth and income.

This meager ratio of resources to population is responsible for the relatively low level of physical production in the South, but it is not wholly responsible for the low value productivity of the southern economy. The low value productivity reflects poor terms of trade in the exchange of southern goods and services for the goods and services produced in the rest of the United States and the world. Thus, historically the South has produced bulk agricultural commodities embodying much manual labor and has manufactured commodities which also embody much labor. Until quite recently these commodities were sold under market conditions approximating those of free competition except as our tariff limited the international market for these goods. The commodities which the South purchased, by contrast, were generally produced and sold under conditions of monopolistic competition characterized by "administered prices."

In an authoritatively planned and administered economy, the economic problems of the South, founded upon a high ratio of population to resources and upon poor terms of trade, could be dealt with directly. By deciding that a high proportion of new plants constructed in the Nation should be built in the South, or by moving population out of the South, the ratio of population to resources in the South could be made to equal the national average. By reducing the prices of goods produced elsewhere and sold in the South, or by raising the prices of goods produced in the South, or by a combination of both methods, terms of trade could be equalized.

We do not, however, have a planned and directed economy. There are limitations on the role of government in a free-enterprise economy. Under present circumstances American industry chooses to build new plants in the South or elsewhere according to the comparable profitability of alternative locations and not in order to "cure" a low ratio of resources to population. Prices of industrial products, although no longer produced and sold under conditions of simple competition, are certainly not consciously priced in order to improve terms of trade for the South. In the case of agricultural commodities, particularly cotton and tobacco, we do have outright intervention by the state. This has had the direct effect of improving the terms of trade of the South in terms of the prices which it receives for its commodities—although this is by no means clearly recognized for the process which it really is.

In an economy such as our own, which is no longer purely a free enterprise and competitive economy but which is not consciously planned and directed by the National Government, what are the alternative economic policies which might be followed by the Federal Government and which would increase per capita wealth and income in the South, without excessive cost to the other regions of the United States?

More specifically, what can the Federal Government do to bring about the expansion of manufacturing and the increase in value productivity in agriculture which must be the twin goals of any really

93232—49——5

effective program for economic development? The answer must be that the Federal Government can stimulate, facilitate, and coordinate but it cannot actually carry into effect the expansion of industrial and agricultural production. An examination of the role of the Federal Government, thus institutionally limited, follows.

FEDERAL POLICIES IN RELATION TO AGRICULTURAL GOALS FOR THE SOUTH

The primary goal: Increased productivity

It has been pointed out in chapter III that the fundamental goal of economic policy in southern agriculture must be the same as that in industry, namely, to increase value productivity per worker.

It has been pointed out that the Federal Government must be responsible for the maintenance of sufficiently dynamic conditions of demand for the products of both industry and agriculture so that this goal of increased value productivity per worker can be pursued without fear of causing unemployment.

Likewise, the maintenance of substantially full employment in the Nation, recognized as the goal of national policy in the Employment Act of 1946, is essential to prevent an oversupply of labor in agriculture which might prevent the increase in production per worker from being translated into higher income for farm laborers.

It has been pointed out that the maintenance of reasonably stable prices for the farm products of the South is only one—and not the most important one—of the conditions prerequisite to the maintenance of full employment in the Nation. It is primarily by action which is neither regional in character nor concerned with the maintenance of prices of particular commodities that the responsibility of the Federal Government for the maintenance of full employment must be discharged. Unless substantially full employment in the Nation could be maintained it would be virtually impossible to carry out an effective program for the economic progress of the South.

It has been pointed out in chapter III that the way toward higher value product per worker has been marked out by the trend of the last decade or so in southern agriculture. The trend has been in the direction of somewhat larger farm units, greater yields per acre, fewer persons employed in agriculture, greater mechanization on the farm, a shift away from the production of cotton alone and toward a system of mixed farming which combines cotton raising with the production of other crops not so dependent upon cheap labor and with dairying and the raising of poultry and beef cattle. In mixed farming the return per worker is usually substantially above that which is obtainable from the production of cotton by hand methods, so long as the price of cotton is not supported by the Government at prices much above recent comparative levels for these types of products.[36]

[36] It is obvious, of course, that the production of dairy products does not in all cases result in a higher value product per worker than in the case of cotton. In many circumstances the reverse would be true, depending upon the character of the soil and many other factors. If the current trend were to continue, cotton production would tend to be concentrated largely in the areas where level land and high yields would facilitate mechanization.

It should be noted also that the trend toward larger farms does not reflect a trend toward the large plantation type of farm. It reflects primarily a trend toward a moderate-sized unit which is large enough to make the purchase of a tractor economical and to permit some reasonably efficient degree of crop diversification. In many cases in eastern North Carolina, for example, farmers who owned 60 acres of cropland have rented 50 more in order to have an economic, efficient-sized 1-man farm.

Along with the trend toward larger farm units, fewer persons employed in agriculture, and the mechanization of agriculture has gone the trend toward soil improvement of all kinds. Improved practices in the use of fertilizer, erosion control through terracing and the like, the increased use of soil-improving grasses and legumes, such as Lespedeza, have contributed greatly to increased value productivity per worker. Immense room for improvement remains, however.

The role of the Federal Government in this field is well known. Research carried on in agricultural colleges and in experiment stations has had substantial support by the Federal Government. Erosion control and soil conservation has been facilitated by numerous Federal agencies. The cooperative Federal-State extension system, through county agents, has served to make available to literally millions of farmers the results of research in agriculture and has given guidance in developing the most profitable types of agriculture and of agricultural practice.

All the activities of the Federal Government which have stimulated soil improvement and improved methods of production—even though their administration sometimes may have been overlapping and not always highly efficient—have been of inestimable value to the farmers of the South. They should be continued and even extended in scope.

The activities of the Federal Government in agriculture have been described in countless governmental publications. Through the aid and guidance given by Federal and other governmental agencies, physical output per capita in agriculture is likely to be facilitated in the future as it has been in the past. There has already been developed such a backlog of knowledge that increased physical output per capita in southern agriculture is already taking place and can be tremendously expanded upon the basis of existing knowledge.

Substantial stimulation of the trend toward greater productivity in agriculture would be afforded by the more general extension of loans for soil improvement and for similar purposes by local banks at reasonable rates. While this is primarily a matter of local policy, some of the Federal Reserve banks, notably that in St. Louis, have worked out a comprehensive program for the guidance and encouragement of local banks in making such loans.

The role of the Farmers Home Administration in making loans available—primarily to share croppers and tenant farmers who wish to improve their productive efficiency and economic status through the purchase of fertilizer, work stock, machinery, and the like—has been one of the most important types of assistance to southern agriculture by the Federal Government. Assistance given through loans by this agency has been a substantial service in enabling tenant farmers to become landowners. Since other economic forces were favorable also, the number of farms operated by tenants in the South has been reduced from 1,762,000, or 57 percent of the total, in 1929, to 1,140,000, or 42 percent of the total, in 1944.

Relation of farm prices to productivity and full employment

Increased physical productivity of southern agriculture would be of little avail if the domestic and international market could not absorb the larger crops which resulted. Nor would the southern farmer benefit from producing larger crops if these crops had to be sold at prices so low that his real income would not be improved by the larger output.

In a full laissez-faire economy, characterized by full competition, if the southern farmer produced larger crops which would bring lower prices, he could expect that the prices of goods which he bought would decrease likewise since the production of goods which he bought from industry would also be expanding, with resulting lower prices. Under these circumstances, lower money prices would have been no disadvantage to the farmer. This process depended, however, not merely upon the operation of competition, but upon a considerable degree of freedom in international exchange of goods and upon a high level of industrial activity and employment. Farmers have learned that they cannot count upon the preconditions which would allow them to produce as much as possible without having to worry about the price relationship between the products they sold and the goods they bought. They discovered that during a depression agricultural production was maintained while prices fell. Industrial prices could be and were maintained because production could be and was curtailed. Consequently farmers have demanded, and have obtained since 1933, the intervention of the Federal Government in the setting of prices of farm products at levels favorable to farmers.

The South has, of course, been primarily concerned with the prices of cotton and tobacco, although there is an interest in the prices of almost all other important agricultural products. Although there has been an increasing tendency to work out a separate program for raising the price of each farm product, there can be little justification from the national viewpoint for the natural tendency of growers to try to use the powers of Government simply to get the prices which give the highest total profit to the growers of each of the different commodities.

In developing a program of Federal aid in supporting the prices of agricultural products produced in the South, three criteria are essential:

It is essential that such a program should be generally consistent with national agricultural policy.

Such a program should not obstruct, but on the contrary wherever possible actually accelerate, the already existing trend toward higher production per capita in southern agriculture which is already under way.

Finally, a program for agricultural price supports must take into account the interests of both farmer consumers and nonfarmer consumers as well as those of farmers who produce one particular farm product.

It is obviously extremely difficult to propose a specific program of agricultural price supports by the Federal Government which would be satisfactory to the farmers of the South while meeting these three criteria.

It has been repeatedly pointed out that there is one condition which is of the greatest possible importance in the maintenance of agricultural prices but which, paradoxically enough, agricultural price-support legislation cannot of itself hope to achieve. A strong and steady demand for the products of both industry and agriculture is the most desirable of all conditions in order that satisfactory prices may be obtained for farm products. If this strong and steady generalized demand were always in existence, it would be difficult to argue in favor of governmental price supports and production controls for agricultural products, except such as might be useful in preventing temporary sharp fluctuations in prices.[37] During a period of generally strong demand

[37] See also ch. III, The Reorganization of Southern Agriculture, et seq.

for all products in the whole national economy, agriculture would not ordinarily need governmental measures to raise prices of farm products since the possibility of employment outside agriculture would eventually enable both farm operators and farm labor to command appropriate compensation for their services.

The desirability of intervention by the Federal Government in advisory "planning" of the acreage of various crops would still exist. "Forward pricing" by the Federal Government so that farmers would have some guarantee against fluctuations in prices would be desirable. In the absence of depression conditions, however, these guaranteed forward prices would not constitute a means of raising farm prices substantially above the average which would otherwise exist over a period of years.

Somewhat paradoxically, however, although the failure of demand for goods in general which occurs during a depression is the principal reason why governmental farm price supports combined with production controls are demanded, it is perfectly hopeless to try to "cure" a general economic depression by action in the field of agricultural policy alone. This means that an agricultural program which may be necessitated by a depression cannot be counted upon primarily to cure it, and that the cure must be sought largely in measures outside the agricultural field.

The utilization of the powers of the Federal Government in dealing with falling agricultural prices during a general economic depression can be counted upon to exert a supporting effect through the placing of the familiar "floor" under farm income. Support levels for farm income, just as in the case of support of incomes anywhere in the economy, can be of great use in stopping a cumulative fall in producer incomes which, if allowed to happen, seriously aggravates an economic depression. Furthermore, these income supports serve to a degree the same purposes as do minimum relief payments to the unemployed. They do help to maintain consumer purchasing power if during a depression the Government has to borrow funds to support farm income and thus causes expansion in bank deposits. They may help to maintain consumer purchasing power if funds for the support of farm income are obtained from taxes on the higher income brackets.

Appropriate limitations should be set on the use of governmental price supports. These "forward" prices should not be set high enough by the Federal Government to encourage the expansion of production beyond the quantities which could normally be marketed. It is likewise important, however, that prices which are supported by governmental action should not primarily be used as an inducement for overall curtailment of agricultural production. The Federal Government should not have to be in the position of saying to the growers of any farm product, "The height of the price which the Government will support depends upon how strictly you, the growers, will agree to restrict production. The more you will restrict production the higher the support price which the Government will allow you to have." This is an undesirable policy since, in effect, it is simply using the powers of the Federal Government to enforce a monopolistic price and to curtail production.

It is obvious, of course, that the Federal Government should not continue to support the price of potatoes when each year millions of dollars have to be spent to dispose of surplus potatoes, unless acreage

reduction is carried out by the growers. However, what is basically wrong with the potato price support program is that guaranteed prices have been set too high by the Government. The payment of millions of dollars by the Federal Government to dispose of surplus potatoes can be avoided most effectively, not by production control, but by lower prices. The lower the price, the less the difficulty of preventing abnormal expansion of production of any particular crop.

Compensatory payments as supports for farm income

Better than governmental loans or buying operations to maintain farm income would be "compensatory payments" to farmers which would have the same effect in supporting farmers' incomes but which would allow prices of farm product themselves to move freely.

Under this plan, the Federal Government might announce its interest to guarantee to the producers of farm products, say, 85 percent of normal market price. This "normal market price" would be the price which, under conditions of a high level of consumer demand and reasonably full employment, might be expected to induce the production of neither a surplus nor a deficit in the quantity of the product needed to meet the estimated domestic and foreign demand.

If, during a depression, the price of a farm product fell below 85 percent of the calculated "normal market price," farmers would be paid out of the United States Treasury an amount sufficient to make up the difference between the actual market price and 85 percent of the "normal market price."

This scheme [38] would have the advantage of allowing prices to fall in a depression with the consequent encouragement to consumption, without diminishing incomes of farmers below the minimum set by 85 percent of "normal market price." United States citizens would meet the cost of these compensatory payments through taxes instead of by paying higher prices for farm products. If financed out of general revenues of the Government, the compensatory payments system would be less "regressive" in its effects than would be the payment of higher prices by consumers—which would be the result of Government price support.

If crop restrictions are imposed as a condition for the maintenance of farm income through compensatory payments it is highly desirable that specific soil conservation and soil improving practices should be required as a condition for receiving benefits under the program.

The grower of cotton, tobacco, potatoes, or any other farm product is naturally likely to accept this doctrine of the limited functions of a governmental program to support farm income with extreme reluctance. He is likely to reason: "The purpose of farm programs by the Federal Government is to raise the price of farm products to levels higher than they would be if there were no such programs. If so-called normal prices are to be lowered as production increases the growers would have no advantage at all. God knows we have no trouble in getting lower prices when we increase production. We do not need the Government to help us do that."

The answer to this is, in the first place, that the guarantee of compensatory payments based upon a percentage of normal price is bound to prevent farm incomes from going as low as they otherwise

[38] Somewhat along the lines of that proposed by Prof. Theodore W. Schultz in his Agriculture in an Unstable Economy, New York, 1945.

might during a time of depression or of temporary glut of the market. This function is about all that such payments can legitimately be expected to perform. Farmers have, however, a right to look to the Federal Government to prevent the catastrophic falls in prices of agricultural products in general which accompany economic depressions. Appropriate action by the Federal Government can go a long way toward "curing" depressions and even preventing them. Preventing economic depressions and facilitating the international exchange of goods and services must be relied upon as the principal means by which the Federal Government prevents general declines in farm prices below reasonable levels. "Appropriate action" by the Federal Government on the national and international level to maintain a general high level of demand for goods involves fundamental measures in addition to those involved in governmental farm programs.

This report is not the proper place to attempt to set forth in any comprehensive way the kind of Federal policy which would be required to insure high levels of employment or to eliminate excess unemployment if it actually were to occur. It is almost self-evident, however, that our economy is momentarily dependent to a critical extent upon the demand engendered by our great export surplus, financed through the Marshall plan, and upon our program of military rearmament. If the situation were to change so fortunately that either or both of these sources of national expense could be eliminated or greatly curtailed we should have to substitute at once some combination of public works expenditures, extension of social-security payments, Federal aid to education, reduction in taxes—particularly in the lower income brackets—and the like on a large scale, if we were to avoid a catastrophic fall in demand.[39]

It does not follow that an economic system must always have a very high rate of expenditures by Government to avoid a depression. In the current conjuncture, given the present state of development and organization of the American economy, it appears that the Federal Government must stand ready to support the level of demand essential to a high level of employment should the occasion demand it. Just when "the occasion demands it" calls for a high order of judgment indeed upon the part of Congress and the officers of the Federal Government. Once more the role of the Council of Economic Advisers, in carrying out the purposes of the Employment Act of 1946 becomes crucial.

FEDERAL POLICY IN RELATION TO COTTON AND TOBACCO [40]

Compensatory payments for cotton

What would the policy of compensatory payments in support of farm income mean in the case of cotton? Cotton is currently selling

[39] We could thus construct more hospitals, school buildings, bridges and have larger social security payments and aids to education for ourselves instead of our having either to furnish goods without charge to the citizens of other countries or to provide airplanes, tanks, artillery, and atomic bombs for our own military forces. Consumers in the lower income brackets could buy more cotton shirts and sheets, more meat and more cigarettes, and the like as a result of the lower taxes.

[40] The policy of dependence upon "forward pricing" based upon an estimated "normal price" together with compensatory payments to maintain farm income which is outlined in this report would be applicable to farm products in general. It would be especially advantageous in its application to the nonstorable products.

Cotton and tobacco are chosen as examples of the application of this policy because these crops are peculiarly important to the South. Its applicability to other crops would, of course, be important to the South also.

at about 30 cents per pound. The price is maintained at this level by Government loan policy which is designed to maintain the price of cotton at 90 percent of parity. This "parity" is determined on the historical base of 1909–14.

Let us suppose that Congress were to decide to change over to the suggested system of guaranteeing through compensatory payments, 85 percent of "normal market price." The first problem would be the very difficult one of determining "normal market price." As nearly as "normal market price" could be briefly defined it would be the price which would induce the production of that amount of cotton which could be sold at home and abroad without special subsidy and leave only a normal carry-over of cotton in storage.[41]

If one could assume that the current excess carry-over of American cotton either could be held off the market or disposed of by special means, it would be possible to work out our suggested illustration by assuming that we could start a cotton program "from scratch" as though the excess carry-over could be disregarded. Under these assumptions we could expect that at full employment 9,000,000 bales of cotton would be consumed domestically. Under the assumptions of continued economic recovery in Europe, we might expect as much as 4,000,000 bales of American cotton to be purchased abroad at a price of say, 20 cents per pound.[42]

The Federal Government would then proclaim its intention of supporting the price of cotton at 85 percent of 20 cents per pound, or 17 cents. This "normal market price" would have been computed on the assumption that under conditions of full employment in the United States, this price of 20 cents would induce the production of not much less and not much more than 13,000,000 bales of cotton under average weather conditions and without restrictions on production.

If economic depression or other factors were to cause the price of cotton to fall below 85 percent of the proclaimed normal market price—that is, 17 cents per pound—then the Federal Government would pay growers of cotton enough to make up the difference between the actual selling price and 17 cents per pound. Thus growers, if the price fell to 15 cents per pound, would receive a compensatory payment of 2 cents per pound upon all the cotton which they raised. This compensatory payment of two cents per pound would cost the Government about $130,000,000 on a crop of 13,000,000 bales. This illustration, has of course, assumed a drastic decline in the market price of cotton, such as would be most likely to occur under conditions of economic depression. If a depression or other factors did not cause the price of cotton to fall below the support level, growers would receive the full market price for their cotton, which might even be above the estimated "normal market price" of 20 cents per pound.

There can be little doubt that cotton growers, by joining with the growers of other farm crops in political activity, could obtain legislation with results more immediately favorable to them than they would

[41] It is perfectly true that a serious logical difficulty arises here. The amount of cotton which can be sold domestically depends only to a small degree upon the price of cotton. The amount which can be sold abroad, however, depends to a substantial degree upon the price at which it is offered. Hence the difficulty of estimating a "normal market price" which is defined partially in terms of the amount sold abroad, when the amount which is sold abroad in turn depends upon price. The solution which we have chosen is to estimate the amount which constitutes "normal" sales abroad partially upon a historical basis and partially upon conditions as one "guesses" what these conditions are likely to be on the international market in 1950.

[42] Twenty cents per pound is chosen purely for illustrative purposes. The Bureau of Agricultural Economics and other governmental bureaus could unquestionably work out a figure which would be founded upon precise data instead of upon a hasty "guesstimate" as in this illustration.

obtain from the "compensatory payments—normal market price" sketched above. It is quite possible that cotton growers could secure the continuance of Government price support at as high as 90 percent of historically based parity. Even under conditions of depression, this might mean a governmental guaranty of 25 cents per pound or even more. In addition, cotton growers would probably receive substantial benefit payments as well, since large rewards, and probably penalties also, would be required to keep cotton production from almost explosive expansion at a price as high as 25 cents under depression conditions.[43] It is quite likely that cotton production, even though the attempt was made to control it as rigidly as it would have to be under these assumed circumstances, would probably be at least as high as it would be if it were without governmental price supports and not controlled at all.

Thus a program of governmental guaranty of the price of cotton at 90 percent of historically determined parity (or at around 25 cents per pound) might be expected, even with acreage control, to produce in an average year a crop of at least 13,000,000 bales, the amount of production assumed without crop control under the "compensatory payments—normal market price" scheme described above. It is doubtful whether, even in the absence of an economic depression, 13,000,000 bales could be sold on the domestic and international market at 25 cents per pound without a substantial export subsidy. However, it is under conditions of economic depression that particular difficulties would arise.

Under assumptions of a serious business recession it would be optimistic to assume that 8,000,000 bales of cotton could be sold on the domestic market at 25 cents per pound. Even so, this would leave 5,000,000 bales of cotton to be sold abroad or to be added to surplus stocks. If we assumed that cotton could be sold on the international market at the same price (15 cents per pound) at which we had assumed that all cotton could be sold on the "free" market under the "compensatory payments—normal market price" scheme, an export subsidy of 10 cents per pound would be required to equalize the domestic and foreign price of cotton.

It is, of course, unlikely that an export subsidy of this size would actually be paid, at least at first. Instead it is probable that excess stocks would pile up until some other means of disposing of them could be found which would not have the appearance of an outright export subsidy. An export subsidy of 10 cents per pound on, say, 3,000,000 bales would amount to $50,000,000. Furthermore the price of cotton on our own domestic market could be kept at 25 cents per pound only by the Government taking at least another 2,000,000 bales off the market. What the eventual loss on the disposal of these 2,000,000 bales would be no man could say.

This illustration serves to indicate the kind of problem we should probably face if we tried to maintain the price of cotton at something like 90 percent of historical parity. It would almost certainly involve heavy cost to the United States Treasury for benefit payments in addition to export subsidies and the cost of other price-supporting measures. Reduced acreage allocations together with strict controls, accompanied by penalties for overplanting, would be essential.

[43] The huge expansion of cotton production in California which has raised that State into fourth rank as a cotton-producing State is apparently due in large part to the high governmental support price. A large part of production in California is high-cost production on irrigated land.

It would not be feasible under such a system of price support and acreage controls to allow acres taken out of cotton to be planted to other staple crops, such as tobacco, corn, and wheat, since we should probably have to have acreage allocations and controls for these crops also. To plant the acreage taken out of cotton with any other crops would meet strong opposition from the growers of these crops who quite logically would be demanding the enactment of their own control programs.

The support of cotton prices at 90 percent of historical parity would almost inevitably be part of a general program of support prices and acreage limitation and control. It seems probable that such a program would involve a larger range of commodities and larger costs for direct price supports than was true under the old Agricultural Adjustment Administration in the early days of the New Deal. Allocations of acreages of the various crops upon some historical base would be required. The experience with the AAA proves that such a program could be administered, but it would be a complicated and intricate affair.

The permanent adoption for almost all of agriculture of a program of curtailment of production by governmental action would be an admission of the failure of our economic system to distribute effectively our maximum potential national product. We would have to admit that, even after the breathing spell given us by the high-level demand of the war and postwar periods, we had not been able to allow our productive machine to operate in the agricultural area without throttling down the engine purely in order to reduce the output. It may be that experience has demonstrated precisely that in such a case we shall have to try to work out the system of controls which will not immobilize more than is absolutely necessary the forces which have been operating, even though slowly, to change the structure of agriculture in the South toward one which can produce a higher level of output per capita.

Federal policy in relation to tobacco

Tobacco, the other agricultural crop of major interest to the South, differs in many important respects from cotton. For one thing, it includes many more types and grades, which increases the mechanical complexity of any control program. For simplicity, this discussion deals only with flue-cured and burley tobacco, which account for about 85 percent of all tobacco grown in the United States and over 90 percent of that grown in the South. Even within these major types there are several subtypes and many grades.

Tobacco acreage and consumption.—The acreage occupied by these two types is very small in relation to the cotton acreage—usually from 7 to 9 percent. The peak acreage was reached in 1946 at 1,678,000 acres; in 1948 it was about 1,350,000, or considerably less than the 1,494,000 acres harvested in 1929.[44] The number of farmers growing these two types is probably around 450,000, contrasted with several times that number growing cotton.

The consumption of tobacco has increased greatly in the past 20 years. In the 3 years 1946–48, domestic consumption of flue-cured and burley tobaccos averaged over 1,150,000,000 pounds, or more

[44] Unless otherwise indicated, the data in this section are from the Production and Marketing Administration of the U. S. Department of Agriculture, especially as given in Annual Report on Tobacco Statistics, 1947, and The Tobacco Situation, February 1949.

than twice the average consumption of 526,000,000 pounds in 1929–31. Currently domestic consumption is slightly greater than total production in 1929–31. Exports, almost all flue-cured, were between 400,000,000 and 500,000,000 pounds per year in both 1929–31 and 1946–48.

The demand for tobacco is much less elastic than the demand for cotton. Between the high and low points of domestic consumption in the 1929–33 period, tobacco declined only about 12 percent contrasted with a fall of about 30 percent for cotton. Since the consumption of tobacco is habit-forming and since purchases cannot be postponed, retail sales of tobacco fall much less than the sales of cotton goods when incomes decline. The export demand, however, fluctuates widely. Almost universally tobacco is subject to very heavy taxation. Also, when it is necessary to reduce consumption or save dollars, tobacco imports may be curtailed drastically since it is regarded as a semiluxury.

The relatively inelastic demand for tobacco products at the retail level does not make itself felt consistently at the grower level for two reasons. First, the number of buyers is quite small and the auction method of marketing makes monopolistic practices possible. Second, the general practice of manufacturers of carrying approximately a 2-year supply of tobacco for aging purposes gives them some leeway as to just when they buy. The latter factor is especially important when there is a change in consumption. Since tobacco is used about 2 years after it is bought, when consumption is rising manufacturers must buy more than is currently being consumed; when consumption is falling, the reverse is true.[45] This means that changes in the rate of consumption are likely to cause especially sharp and wide changes in the prices of leaf tobacco.

Under a "compensatory payments—normal market price" program, however, the effects of this factor should be alleviated somewhat. Complete statistics on consumption, exports, and stocks are available at all times, and the "normal market price" could be set in view of the trends in each of those series.

Recent tobacco history.—The relatively inelastic demand for tobacco and the great increase in consumption during the past 20 years have put that commodity in a comparatively favorable basic situation. It would seem that if any major farm commodity were ever to complete its "adjustment" and dispense with artificial controls, tobacco should have done those things during the past two decades. Actually, however, the reverse has been true. Tobacco has received more special legislative attention than any other major crop; it was the only major crop on which acreage controls were maintained throughout the war; and it now has by far the most elaborate and complicated set of controls in our agricultural program. In fact, tobacco provides almost a perfect case study, since it affords illustrations of almost every type of control device and shows how they have been combined to provide a greater degree of over-all control than is found with any other farm commodity.

When the original Agricultural Adjustment Act was passed in 1933, tobacco was given a base period of 1919–28 instead of 1909–14. In 1940, for flue-cured and burley tobaccos, the base period was changed

[45] In 1946–48 production averaged about 200,000,000 pounds more than domestic consumption plus exports; the difference was added to stocks.

to the years 1934–38. Those two changes have given these two types of tobacco approximately 50 percent higher parity prices than they would have had on the 1909–14 base. Under the 1938 act, acreage allotments on tobacco could be invoked, without regard to price, when tobacco supplies reached certain levels. During the war that formula did not permit allotments, but they were continued under special legislation passed by Congress. Under a 1946 act, tobacco grown outside quotas is taxed at a rate equal to 40 percent of the average price received the previous year by that type and grade of tobacco.

The Agricultural Act of 1948 contains three provisions of special significance to tobacco:

First, the new formula for computing parity prices gives slightly higher parities for flue-cured and burley tobacco, while parity prices for cotton, corn, wheat, oats, and peanuts are reduced by amounts varying between 10 and 20 percent.

Second, tobacco prices are to be supported at 90 percent of parity, while prices for other farm commodities are to have "flexible" support levels varying between 60 and 90 percent.

Third, acreage allotments for "marketing quotas" for tobacco may be continued indefinitely regardless of prices or supplies of tobacco.[46]

Because tobacco enjoyed relatively high average prices during the period 1939–48, the farm program proposed by Secretary Brannan in April 1949 would increase and perpetuate that advantage. Under conditions existing on March 15, 1949, the terms of this program would have provided for supporting the price of flue-cured tobacco at 49.2 cents per pound and burley at 49.6 cents per pound.[47] For flue-cured, the price is approximately equal to the highest seasonal average price ever received (49.4 cents in 1948) and is about 156 percent of parity on the 1909–14 base. For burley, the proposed support price is about 1 cent higher than the highest seasonal average price ever received (48.5 cents in 1947) and is about 188 percent of parity on the 1909–14 base.

Two large stabilization corporations—one each for flue-cured and burley—provide another and, it is believed, a unique feature of the tobacco-control program. These are mutual producer cooperatives. With loans from the Commodity Credit Corporation to cover the cost and handling and carrying charges of tobacco, they act as agents of the CCC in supporting tobacco prices at 90 percent of parity. The loans from the CCC are nonrecourse loans of the type used with other farm commodities.

The strict control of acreage has created an artificial shortage of tobacco land, and the differential profits to be made from growing tobacco have, to a considerable extent, been capitalized in the price of such lands. For good tobacco land, prices of a thousand dollars and up per "quota acre" are not at all uncommon in the flue-cured belt.[48]

The combined production of flue-cured and burley tobaccos in 1946, 1947, and 1948, in millions of pounds was, respectively 1,966, 1,801, and 1,616. Burley acreage was reduced by about 16 percent in 1947; flue-cured acreage by about 25 percent in 1948. Allotments for 1949 are slightly higher than for 1948. Average yield per acre

[46] Public Law 897, 80th Cong., 2d sess., 1949 Price Stabilization. See also the pamphlet, Summary of Agricultural Act of 1948, issued by the U. S. Department of Agriculture in 1948.

[47] Congressional Record, April 7, 1949, vol. 95, p. 4122.

[48] See: John E. Mason, Acreage Allotments and Land Prices, Journal of Land and Public Utility Economics, May 1946, vol. 22, pp. 176–81.

for flue-cured in 1948 was 1,224 pounds, an increase of 77 percent since 1929; for burley, it was 1,282 pounds, an increase of 59 percent. Domestic consumption of the two types is running at a rate of about 1,200,000,000 pounds, and exports will probably be between 400,000,000 and 450,000,000 pounds, making a total of over 1,600,000,000 pounds.

Since 1942, prices of flue-cured tobacco have averaged above 42 cents per pound; in 1948, they were at a record of 49.4 cents, up sharply from the 41.2 cents of 1947 and slightly above the previous record of 48.3 cents in 1946. Burley prices have averaged above 39 cents per pound since 1941; in 1948, they averaged 46.1 cents, slightly below the record of 48.5 cents in 1947. In the 1909–14 period, flue-cured averaged 12.9 cents and burley, 10.8 cents; in 1934–38, the averages were, respectively, 22.9 cents and 22.2 cents. On a 1909–14 basis, flue-cured prices in 1948 were over 50 percent above parity; burley prices, about 70 percent above. Support or loan prices are shown in table VIII.

One of the principal results of the high prices and the controlled acreage has been the great increase in yields per acre. In turn, the high and rising yields per acre plus the high prices have made necessary a still stricter control of acreage to prevent overproduction. This explains why, even with the high prices and the greatly expanded consumption in recent years, the sharp reductions in acreage were necessary in 1947 and 1948. Even so, some price-support operations were necessary. Although average prices received in 1946–48 were substantially above support levels, considerable amounts of both types of tobacco were placed under loan in those years. The figures are shown in table VIII. One reason why some tobacco was placed under loan when averages were above support levels was that prices varied during the season, especially for some subtypes and grades. Figures are not available to show how much money was involved in these support operations. Calculated at average support prices, the amounts placed under loan were worth these amounts: 1946, $63,206,000; 1947, $109,314,000; 1948, $85,860,000.

TABLE VIII.—*Average prices received, support prices and amounts of tobacco placed under loan, 1946–48*

Type of tobacco	Average price received (cents per pound)	Loan value (cents per pound; 90 percent of parity)	Amounts placed under loan (million pounds)
1946—Flue-cured	48.3	32.1	58
Burley	39.7	33.6	133
1947—Flue-cured	41.2	40.0	235
Burley	48.5	40.3	38
1948—Flue-cured	49.4	43.8	106
Burley	46.1	42.4	93

Source: Compiled from Annual Report on Tobacco Statistics, 1947, and The Tobacco Situation, February 1949.

Compensatory payments scheme applied to tobacco.—A "normal market price" program for tobacco would obviously have to be based upon tobacco prices considerably lower than those prevailing at present, since very tight controls are now required to prevent overproduction. With present economic conditions and tobacco prices lower by 25 or 30 percent, a crop of something like 1.9 billion pounds of flue-

cured and burley tobacco might be sold at home and abroad without subsidies. As with cotton, this is only a rough guess, and the precise figure would have to be worked out with much care. The logic of it is this:

> Domestic consumption is now running at about 1.2 billion pounds per year and increasing at the rate of 4 or 5 percent per year. Lower leaf prices would not change that very much since retail prices of tobacco products would not be much affected and small changes would not cause any appreciable changes in consumption. In exports, however, lower prices would have considerable effect. The principal factor limiting purchases by Great Britain and other European countries now is the scarcity of dollars. With lower prices, the same number of dollars would buy considerably more tobacco. With prices lower by 25 or 30 percent, we might well expect to export from 500 to 600 million pounds of tobacco per year or even more. This, with the 1.2 billion pounds of domestic consumption, would make a total near 1.8 billion pounds. The difference of 100 million pounds or more should be added to stocks so long as consumption increases.

What price would induce this much production and yet not cause overproduction? As pointed out above, it would have to be considerably below present prices. On the other hand, it would apparently not have to be much below 30 cents per pound. The reason we can say this with considerable confidence is that at present prices growers can produce tobacco beyond and outside quotas, pay the 40 percent penalty, and still realize a price of nearly 30 cents per pound after the tax. This has been true, within a range of 3 or 4 cents, for the past 3 years, during most of which time production costs were lower than at present. Yet there has been very little production beyond quotas.[49]

As a first rough approximation, we might assume a normal market price of 35 cents per pound.[50] If compensatory payments became effective at 85 percent of the normal price, that would mean that payments would be made when the current market price fell below 29.75 cents per pound. By coincidence, this is almost exactly 90 percent of the parity price for flue-cured tobacco calculated on a 1909–14 base period; it is about 10 percent above parity price for burley tobacco on the same base. This means that under a system of this kind and a normal price of 35 cents per pound, tobacco growers would enjoy about the same benefits that other farmers now have with a program of price supports at 90 percent of parity.[51]

Let us assume that there is a substantial depression, that the crop of flue-cured and burley tobacco increases to 2.2 billion pounds, and that the market price falls to 25 cents per pound. Such a combination of events would require compensatory payments of $104,500,000 per year. If the price should fall to 20 cents per pound with the same crop, payments would total $214,500,000. A decline from present prices to 20 cents per pound would be roughly comparable to the decline which took place between 1929 and 1931.

With both cotton and tobacco it might be desirable, in order to facilitate the transition from the present plan to the new program, to provide for interim levels for price supports or compensatory pay-

[49] During the fiscal year 1948, the Federal Treasury collected only $4,608,000 in penalties on tobacco marketing quotas. The Budget of the United States Government for the fiscal year ending June 30, 1950, p. A15. This indicates that penalties were paid on from 23,000,000 to 26,000,000 pounds of tobacco; this was less than 2 percent of the crop and might well be accounted for by mistakes in handling quotas, accidential overplanting, etc.

[50] It might be desirable to set different prices for flue-cured and for burely; that is another question which would have to be decided after a careful study of the details of the situation.

[51] This is subject to one qualification. The growing of tobacco requires much hand labor and growers must hire a good part of that labor during the harvesting season. Farm wages are not included in the computation of parity prices, and those wages have risen considerably more than has the general index of prices paid by farmers. To this extent tobacco growers would not be as well situated as other farmers in the above comparison.

ments. Thus it might be specified that the support levels effective in the 1948 (or 1949) season should be reduced by 10 percent each year and that these would be the effective levels until the support levels under the new plan were reached. Such a transition would be completed in 3 or 4 years; it would enable farmers to make the adjustment in a more orderly manner and would insure them against a drastic price reduction in any one year.

Brief comparison of proposed Brannan plan with that of this report

The program of agricultural price and income supports recently proposed by Secretary of Agriculture Brannan differs basically from the type of program which was suggested above and which was spelled out in some detail in the cases of cotton and tobacco. For these two commodities, the Brannan proposal would provide essentially the same type of program as that now in effect. It would reduce the support price for cotton slightly and would raise the support prices for tobacco by roughly 25 percent. This results from the fact that the same "adjustment factor" is applied to the average base period prices of all farm commodities, regardless of whether they were (relatively or absolutely) high or low, "favorable" or "unfavorable," during the base period.

From the standpoint of the direct interests of the producers of cotton and tobacco, the Brannan program would unquestionably have substantial advantages over the plan we have proposed. It would provide support prices for those two crops much higher than those we have envisaged. Primarily for that reason it would apparently be much more costly to the taxpayers than would our program. Since the Brannan program would continue price supports for cotton and tobacco, the cost to consumers would be higher than under the plan we advocate (provided the differences in the prices of raw cotton and leaf tobacco under the two plans were actually reflected in retail prices). In summary, the Brannan program would apparently be more costly to consumers of cotton and tobacco and at the same time would cost taxpayers much more than would the plan here proposed.

With respect to perishable food products (such as fresh vegetables, meat, poultry, and dairy products), the Brannan program of "production payments" would be similar in some respects to the scheme for compensatory payments outlined above for cotton and tobacco. One important difference is that in the Brannan program the "production payments" would not be lowered as a means of discouraging an undesired expansion of production. Instead, quotas and acreage controls would be used to restrict production.

There can be no doubt that the Brannan program would support the incomes of tobacco and cotton farmers in particular, and of all farmers generally, at much higher levels than would the plan we have outlined. To the extent that it was successful in maintaining these higher income levels, it might be more effective in preventing economic depressions. Its prospect of doing this would be greatly increased if some means could be found for supporting the income of the nonagricultural elements of the population at similarly high levels. This would be complicated somewhat by the tendency of the Brannan program to insure farmers a minimum share of the national income and then to allow them to get as much more as the market would permit.

The Brannan program would probably require a greater administrative apparatus and control of production than would be involved in our plan. Our suggested scheme relies to a large extent on retaining the effect of "normal price" to restrict production. The production controls provided for in the Brannan program are, indeed, a logical part of the program. We have learned from bitter experience that if we are to have prices for farm commodities higher than the free market would set, we must control production. The lower "normal prices" which we advocate would be counted upon largely to obviate control of farm production through Government action. These lower prices, however, would have much less appeal to most farmers and might constitute a substantially less effective counterdeflationary measure.

Finally, it would have to be admitted that even allowing farm prices to seek their "normal price level" as proposed in this report might not hold farm production down to levels where the total amount produced would be taken off the market except at prices so low as to necessitate much larger compensatory payments than we have estimated. If this were to happen the cost during the initial period would rise in comparison with the cost of the Brannan program. If, on the other hand, estimated "normal prices" were lowered in order to reduce the cost of the compensatory payments we have proposed, the whole program might be seriously jeopardized by farmer opposition.

Our plan of compensatory payments based on a lower "normal price" would render it even more essential that full employment in the nonagricultural parts of the national economy should be maintained. If farm production were limited or reduced by our plan it would be absolutely necessary that alternative industrial employment should be available for labor which might thus be released from agriculture employment. National economic policies favoring full employment would consequently be required, including the provision of large-scale public-works programs and the like to meet emergency situations.

FEDERAL POLICIES IN RELATION TO INDUSTRIAL EXPANSION

There is a paradox of major importance involved in dealing with the impact of Federal policy on the development of the economy of the South. On the one hand extensive industrial development is the one sure way in which per capita income in the South could be raised to the national level. On the other hand, it has been pointed out that decisions to establish new industries or to expand those already existing cannot, under our existing economic system, be made by Government. This is in contrast with the situation in agriculture, where the Federal Government has to a large degree taken over the function of deciding how much of each staple crop shall be produced, in addition to the task of controlling production and deciding upon and maintaining prices.

Under existing "rules of the game" the role of the Federal Government in stimulating the expansion of industry in the South can only be indirect. The policy of the Federal Government in setting minimum wages may retard or stimulate the expansion of southern industry. Similarly with respect to our national policy in international

trade, in the maintenance of full employment, in fiscal policy, in aid to education, and the like. These subjects are covered in this report under their own headings. The general conditions and principles which affect the expansion of industry in the South are covered in chapter III under the heading "Expansion of Southern Industry."

The South not only needs industrial expansion to provide jobs for labor which would otherwise be in surplus. It needs also industries of a type in which the value added per worker will be higher than the average in existing industries. This means, among other things, that southern industry needs to carry further the processing of the area's raw and semifinished materials. The opportunities in this direction are considerable. What is needed is not merely capital, but technical know-how and entrepreneurial initiative.

It may be pointed out that in view of the continual growth of the supply of labor in this area, and in view of the desirability of the dispersal of industry to meet the threat of atomic warfare, the influence and even the authority of the Federal Government should be exerted to insure an appropriate allocation of defense industries to the South.

The lag of the South in industrial research and technical training facilities is a substantial factor in limiting the expansion of industry in the area. Whatever can be done in the way of Federal support for regional-research centers and graduate technical schools will help to overcome this lag. Fellowships for study and research in industrial engineering, industrial management, chemistry, and physics, financed by Federal aid, also offer considerable promise. Such Federal aid would, of course, have to be furnished to all regions and not to the South alone.

FEDERAL POLICIES IN RELATION TO THE DEVELOPMENT OF NATURAL RESOURCES

For a low-income region such as the South, there is no question as to the policy which should be adopted regarding natural resources. They should be developed as far as is economically feasible. If the indigenous capital funds in the region plus the private funds which may be attracted into the region are not adequate to finance the development of natural resources it may be sound policy for the Federal Government, in the interest of the Nation as a whole, to provide such funds.

As has been noted previously, the South has certain outstanding natural resources or attributes. These include: (1) a mild climate and a long growing season; (2) a combination of rough topography and abundant rainfall which creates a large water power potential; (3) fairly large supplies of coal, petroleum, and natural gas; (4) varying quantities of many other minerals, mainly of low quality; and (5), mainly mediocre and poor soils for agricultural purposes, and those subject to erosion.

A logical and fairly obvious program for the development of southern natural resources at a minimum would include certain elements.

First, the program of forest conservation and development should be expanded to take advantage of the favorable climate, to use the millions of acres of land too poor for profitable farming, and to help reduce soil erosion and flood damage.

Second, the soil conservation program should be extended and intensified.

Third, undeveloped water power should be harnessed wherever it is economically feasible to do so.

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Fourth, a careful study should be made of mineral resources and the possibilities for their profitable use.

Finally, there should be developed a program for the conservation of the petroleum and natural gas of the Southwest to guard against waste and uneconomical use and to extend their useful life to the maximum.

Most of these activities will require the cooperation of individuals, States, and the Federal Government.

In passing, it should be noted that the problem of conserving and developing natural resources, especially as it is affected by Federal policies, is somewhat different in the South from the problem in some other parts of the country. In the 13 Southern States, the Federal Government owns 4.4 percent of all the land; in the rest of the country it owns 31.6 percent. In some large areas of the West, well over half of all land is federally owned. This means that in the South, Federal policies must be worked almost entirely through private landowners—with all the time, expense, and difficulty that implies—while in certain other areas those policies can be put into effect on millions of acres immediately with comparatively little expense or difficulty.

The Tennessee Valley Authority

The Tennessee Valley Authority represents the most ambitious and far-reaching attempt the Federal Government has ever made to bring about the coordinated, integrated, long-range conservation and development of the natural resources of a large area. For that reason it may be well to note the progress it has made to see if it offers any techniques or methods which may be useful elsewhere in the future.

Up to June 30, 1948, the Federal Government had made a net investment of approximately $807,000,000 in TVA. This sum was derived as follows:

Appropriations and property transferred to TVA	$777, 329, 978
TVA bonds held by U. S. Treasury	54, 000, 000
Total	831, 329, 978
Less: Repayments by TVA into United States general fund	−23, 059, 000
Net investment	807, 270, 978

This total does not include any allowance for interest on the appropriated funds nor for the interest subsidy on the TVA bonds held by the Treasury, which bear only 1 percent interest. Neither does it include several millions of dollars to cover the cost of properties transferred to TVA, which that body did not consider as useful or profitable to its operations. The appropriation for 1949 was $30,839,000, and $56,400,000 has been requested for 1950. At this rate, the Federal investment in the project will soon reach a billion dollars.

The water-power program of TVA.—In the fiscal year 1948, net income from power operations was $16,617,811, bringing the accumulated total from this source to about $109,000,000. The net loss on other operations in 1948 was $12,187,784, giving a total net income for the year on all operation of about $4,600,000. Net power income for 1949 and 1950 is estimated at $19,700,000 and $15,800,000, respectively. According to TVA accounting, the net operating earnings from power operations in 1948 were equal to about 4¼ percent on the average investment allocated to power operations in that year, namely, $405,000,000.

Many questions have been raised concerning TVA accounting methods and no attempt is made here to pass judgment on that problem as a whole.[52] Certainly, however, one major item of power costs is definitely understated in comparison with private utility operations. In 1946, major private electric-power companies in the United States paid taxes equal to 18.7 percent of their operating revenues.[53] In 1948, TVA made payments in lieu of taxes amounting to $2,005,000, or about 4 percent of operating revenues. If TVA had made payments at the same rate as private electric companies, it would have paid about $9,125,000 and its net income from power operations would have been reduced to $8,050,000, or about 2 percent on power investment.[54]

The importance of the tax exemption is indicated by a cost analysis of TVA power and privately generated power.[55]

> In the fiscal year 1947, TVA and its governmental and cooperative affiliates paid taxes and tax equivalents equal to 0.4 mill per kilowatt-hour on the power they sold; class A and B private companies paid 3.1 mills. The difference—2.7 mills—was almost exactly equal to the net profit (2.8 mills) which the TVA groups showed on each kilowatt-hour of power sold and was 67.5 percent of total expense (4.0 mills) of the TVA group.
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> The TVA group also had a low interest expense, due to the fact that most of the funds it spent were Federal appropriations. (Ordinarily the interest expense is greater for hydroelectric companies than for other power companies because of the heavy capital investment required.) The interest espense for the TVA group was 0.2 mill per kilowatt-hour contrasted with 1.0 mills for the private companies. This difference—0.8 mill—added to the 2.7 mills difference on taxes makes a total difference on these two items of 3.5 mills, which is 0.7 mill per kilowatt-hour more than the net profit per kilowatt-hour shown by the TVA group and is equal to 87.5 percent of the total TVA expense per kilowatt-hour.

Total electric generating capacity in the TVA territory has more than trebled since 1933, rising from about 800,000 kilowatts to almost 2,600,000 kilowatts. Electric power actually generated in 1948 was almost 15,000,000,000 kilowatt-hours—nearly 10 times the amount generated in 1933. This great increase in generating capacity and the accompanying low rates have been an important factor in stimulating industrial growth. Lower rates and abundant power have also brought about an enormous increase in residential use of electricity. This is summarized in two brief statements:

> In 1933, the average annual use by residential consumers in the United States was 600 kilowatt-hours and the average cost per kilowatt-hour was about 5½ cents. In the present TVA service area, average use was practically at the same level and average rates were slightly higher * * *
>
> * * * Average residential use of electricity per consumer [in 1948] was 2,520 kilowatt-hours at an average cost of 1.57 cents per kilowatt-hour, as com-

[52] For some of those questions see: TVA's First Audit by GAO Points Way to Businesslike Evaluation, Journal of Accountancy, vol. 83, June 1947, pp. 507–510. For a reply see E. L. Kohler, the TVA and Its Power-Accounting Problem, the Accounting Review, vol. 23, January 1948, pp. 44–62.

[53] Statistical Abstract of the United States, 1948, p. 497, Washington.

[54] A representative of TVA contends that this is not a valid comparison since TVA deals in wholesale power, while private power companies "obtain most of their revenues from much more lucrative retail sales." In respect to property taxes, it would be logical to expect wholesale power companies, and especially hydroelectric companies, to have a higher ratio of taxes to revenue than other companies, because of the large investment in submerged lands, dams, generating plants, and transmission lines. TVA does not pay to governments as much as privately owned companies would pay in taxes if they owned the same property, hence some adjustment must be made before a valid comparison can be drawn.

Income taxes depend on net earnings. If the wholesale business is not profitable, then income-tax liabilities would be low. If the TVA statement of net earning from power operations in 1948 is a valid statement of net income for income-tax purposes it would have carried, for a private company, a Federal income tax liability of some $6,300,000. This, of course, would have been lower if more property taxes had been paid.

[55] The following data are from Kohler, op. cit., p. 58.

pared with national averages of 1,505 kilowatt-hours and 3.06 cents. Average residential use was more than four times greater than in 1933.[56]

Two factors are pertinent in this connection. Since the war, all of the increase in power sales has been in sales to municipalities and cooperatives; sales to "Federal agencies, industries, and other utility systems totaled about the same in 1948 as in 1945." The great increase was in residential consumption, which doubled between 1945 and 1948. Second, the Authority is pointing to a serious shortage of power in the years immediately ahead and is asking for authority to build more steam-generating capacity.

This raises a major question of policy; how far is the Authority to go in developing residential and commercial uses of current and supplying it with steam power? There can be little question that the TVA has been a most important factor in bringing about a sharp reduction in power rates, not only in its own area, but throughout the Nation. That has been a great and significant contribution by the Authority. The two important questions which remain are: how much farther is it to be carried, and are present rates covering all true costs? If the rates are not covering all costs, then there is an element of subsidy in them, and the Federal Government is helping householders of the valley to pay their utility bills.

For operations outside the power program, it is difficult to measure results accurately.

For 1948, the Authority estimated that flood damage averted amounted to $14,690,000 dollars. It estimated that direct annual benefits from flood control for the future, based on past records, will amount to $11,000,000.[57]

In the field of navigation, a minimum 9-foot channel is now available up the river as far as Knoxville. A number of terminals have been established along the river, and several communities have enjoyed a substantial economic growth as a result of the river traffic and the savings in freight which it has brought. At Chattanooga, some 150,000 tons of freight were handled in 1948 compared with 40,000 tons in 1945; at Knoxville, some 250,000 tons compared with 7,500. On the river as a whole, the "ton-mile traffic for 1947 was over five times that for 1945 and nine times that of 1926." [58] The Authority estimated savings in freight charges during the fiscal year 1948 at $3,000,000, which was about "a third of those forecast when traffic reaches full development on the new channel." [59] If these estimates are correct, the savings on these two items would amount to some $20,000,000 annually, which would be equal to a 4-percent return on an investment of $500,000,000.

TVA's other resources development programs.—In addition to the above activities, the TVA is carrying on a broad program of resources development.

Agriculture receives the greatest attention. The Authority cooperates with State and Federal agencies to encourage soil conservation by promoting terracing and the growing of cover crops; it conducts

[56] Annual Report of the Tennessee Valley Authority, 1948, pp. 1-2, 94, Washington, 1948. Some part of the difference in cost per kilowatt-hour—probably about one-fourth—was due to the difference in the average amounts of current used. One of the authors of this report pays, for current supplied by a privately owned electric company, about 1.56 cents per kilowatt-hour—on an average annual consumption of about 10,000 kilowatt-hours.

[57] Ibid., p. 1.

[58] Transportation on the Tennessee, Monthly Review, Federal Reserve Bank of Atlanta, February 28, 1949, pp. 13-19.

[59] Op. cit., Annual Report, 1948, p. 1.

test and experiment farms; it produces and promotes the use of fertilizers; it carries on research for the development of new and more efficient farm equipment; it encourages the development of pastures and the raising of livestock; and, finally, it promotes rural electrification and better marketing methods. The cost of the agricultural program was 4.1 million dollars in 1947 and 2.6 million dollars in 1948.

In forestry, the Authority helps to extend protection against forest fires; promotes reforestation by distributing millions of seedlings; and encourages better methods of forest management.

Other phases of the resources program include the development of mineral and recreational resources; studies of stream sanitation and public health; research and advisory work in the fields of transportation, industry, and public finance; and topographic mapping.

The total cost of all developmental activities was 7.5 million dollars in 1947 and 5 million dollars in 1948.

The peculiar contribution of TVA has been the unique pattern of governmental activity which it has established in the field of resources development. It has coordinated many activities of Federal, State, and local governments and has eliminated overlapping. It has brought about an integrated development of resources which would not have been possible under any other arrangement. In this respect it has largely accomplished the purpose for which it was created.

General appraisal of role of TVA in the economy of the South.—After 16 years, how has this program affected the economic life of the area? It is hazardous to pass judgment after such a hasty survey, especially since many of the activities have not yet exerted their full effect.

One broad and general measure of economic change, although subject to many qualifications, is population growth. The increase in population in certain areas from 1933 to 1947 was as follows:

	Percent
Tennessee	12. 5
East South Central States (Alabama, Kentucky, Mississippi, and Tennessee)	6. 5
Other 9 Southern States	14. 5
United States	14. 2

Manufacturing employment in the immediate TVA area increased by 140 percent from 1933 to 1946, compared with an increase of 98 percent in the whole United States. From 1939 to 1947, Tennessee had the same rate of growth in manufacturing employment as the South as a whole, having 10.4 percent of total southern employment in both years. During these same years, Alabama, Kentucky, and Mississippi had small relative increases but the changes were too small to be significant. From 1940 to 1945, the value of farm products sold in the valley increased by 148 percent compared with an increase of 143 percent in the Nation.

Between 1933 and 1947, per capita income payments in the TVA area rose from $148, or 40 percent of the United States average, to $797, or 60 percent of the United States average. During the same period, the change in per capita figures for the South as a whole was from $208, or 57 percent of the United States average, to $925, or 70 percent. The percentage increases from 1933 to 1947 were 439 for the TVA area, 345 for the South as a whole, and 259 for the United States. These figures show a decidly larger rise for the TVA area, but some part of that difference was undoubtedly due to the ten-

dency, noticeable throughout the country, for low incomes to rise more, relatively, than higher incomes during the war period.

These data indicate that, while the TVA has accomplished much, it has not been the dominating factor in southern economic development. It has contributed materially to the economic development of the South, but it has not determined, nor substantially changed, the pattern of that development.

On the other hand, the TVA has been of real significance and value to the area affected and, to a less extent, to other areas. In the first place, the water power of the valley was harnessed, and electric generating capacity was expanded far beyond what would have been done under private enterprise. Not only has this been an important factor in stimulating industrial development, but it was also an invaluable asset during World War II. It made possible a great expansion in aluminum production when that metal was desperately needed, and it provided the power for the atomic project at Oak Ridge. It might be said that in these two respects alone the project justified itself. Further, the power operations of TVA have been instrumental in lowering electric-power rates in many parts of the country.

The TVA has made other important contributions. It has promoted industry where it was needed most, and it has raised incomes where they were lowest. It has facilitated a balanced economic development of the area. It has put natural resources to work and helped to conserve and improve soil and forest resources. In all of these respects, it has been a successful and profitable experiment.

The success of the TVA in its own area has suggested to some the possibility of undertaking similar projects in other parts of the South. For example, estimates of the Federal Power Commission show that in 1945 there were approximately 12,000,000 kilowatts of potential water power undeveloped in the region compared with about 5,000,000 that were actually being used. The mere existence of the potential, however, is not enough; it must be determined how much of it is capable of economical development. That is a major undertaking which should be carried through irrespective of other efforts that might be made. The undeveloped potential is, however, more widely scattered and is not joined together in one river system as is the power in the TVA area.

It might be possible to adapt TVA methods and techniques to other conditions and other areas and to try different combinations of them. That possibility should be investigated thoroughly.

Role of the Federal Government in developing forest resources

There are other and more specific programs for the development of natural resources in the South which could and should be undertaken now. In most of these there is a definite part for the Federal Government.

One of these is a greatly expanded program for the conservation and development of forest resources. The importance of forests in the South has been indicated elsewhere. An increased educational campaign is needed to impress the public with the importance of developing our forests.

The Forest Service of the United States Department of Agriculture at present has a budget of about $60,000,000 per year; this could well be increased substantially. In particular, the funds for coopera-

ting with States for forest-fire control should be expanded. Now these amount to about 8.5 million dollars per year. The South, with about 44 percent of the Nation's forests, receives less than 30 percent of these funds. Losses from forest fires are especially heavy in the South, and repeated experiments have shown that with additional funds those losses can be reduced greatly.

Long-term credit at low rates of interest is needed to encourage the proper management of forest lands. Risks with such credit could be kept under control if the loans were accompanied by insurance, and the requirement that approved practices be observed in managing forest lands.

States have an important role in the field of taxation. Forest lands should be classified and taxed at a low rate during the growing period; a substantial severance tax could then be levied when the timber is cut. Southern States have done very little in this field as yet. If the Federal Government advanced loans for forest development at low rates of interest it might well require that the States do their share by reorganizing their systems of taxation.

The soil-conservation program of the Federal Government has been of great benefit to the South and should be continued, as was mentioned earlier in this chapter.

Federal policies in the development and conservation of mineral resources

There have been innumerable surveys of mineral resources in various parts of the South. Most of those surveys have been superficial and have been made by geologists who were interested primarily in the physical phenomena. There is urgent need for more analysis by mining engineers, chemists, and economists to appraise the technical and economic possibilities of the minerals which exist in the region. Admittedly, this would be a vast undertaking, but if it were properly carried out it would be more valuable than all the mineral surveys which have been made up to the present. Until such information is available it is not possible to formulate any intelligent, long-range program for the development of the mineral resources of the region.

There is a special need for a careful economic analysis of our policy—or lack of policy—respecting two major mineral resources, petroleum and natural gas. The low prices of these commodities before the war, price control during the war, the fact that their administered or regulated prices rose more slowly than demand would have warranted after price controls were removed, and high personal incomes, all have contributed to an enormous increase in consumption. Often they have been substituted for other fuels in areas where other fuels were abundant.

There is much uncertainty as to the reserves of these two fuels which remain in the earth. But whether they will last 20, 50, or 75 years, the day is inexorably coming when they will be largely exhausted. The rate at which consumption is increasing is speeding the arrival of that day. Since the war there have been plans for building or converting two huge pipe lines to carry natural gas to the eastern seaboard. That area has an abundance of coal, the supply of which is much more plentiful than are the supplies of petroleum and gas. We need to ask whether it is sound long-range policy to permit the exhaustion of these two fuels to be speeded up because the price is low and to save coal, of which we have an almost inexhaustible supply.

The exhaustion of these two resources would deprive us not only of two major fuels, but also of two very important raw materials for industry. For the Nation as a whole it would, unless adequate substitutes were available, paralyze our economy and menace our national security. The States of the Southwest are especially affected by these two minerals. Those States depend on them, not only for a major portion of their income but also as sources of fuel and power for nearly all industry. Those States have little coal or water power and without oil and gas their industries would be seriously handicapped. Those Southwestern States are seeing the very lifeblood of their economy drained away day by day in ever-increasing amounts. When these two resources are gone, they will indeed be a blighted area unless other economic activities have been developed.

This is a problem which calls for immediate and serious consideration. The first essential is to see that the resources are not wasted or used uneconomically. This might well call for a price which would halt the wholesale substitution of oil and gas for other fuels. The second essential is to see that the extraction of these two minerals should produce the revenue to build up other economic resources and activities.

Both of these ends might be served by a heavy severance tax on these two items. Louisiana and Texas are collecting substantial amounts from severance taxes now, but both apparently are using the funds for current operating expenses—Texas using the tax to some extent as a substitute for an income tax. For an adequate program, joint action by several States would be required to levy a tax equal to, perhaps, a large fraction of the value of the oil and gas at the well. Or the Federal Government could levy the tax and remit it to the States in which production takes place. The revenues should then be earmarked and placed into a special trust fund to be used only for economic development. Some plan such as that would seem to be required if the States concerned are not to go into an economic tailspin when these valuable and vital resources are exhausted.

FEDERAL POLICIES IN RELATION TO FINANCIAL RESOURCES AND CAPITAL REQUIREMENTS

The South ranks low in comparison with the rest of the country in respect to financial resources. Its rank is lower than in most other economic comparisons. This was explained in an earlier chapter, but the essential facts may be briefly summarized here.

With about 27 percent of the Nation's population and some 18 percent of its income payments, the region has only about 15 percent of the country's commercial banking resources, inadequate insurance and investment banking facilities, and almost no savings banks or security exchanges.

Southern banks hold between 17 and 18 percent of the country's demand deposits but only about 11 percent of the time deposits.

While we have no reliable measure of savings in the region, the indications are that they are no more than 12 or 15 percent of the national total; the above facts plus the low average incomes in the region all point to that direction.

Further, there is the drain of those savings out of the region which has been described earlier. Also, in periods of panic, the outflow of savings may be accompanied by the outflow of normal bank balances of large interregional concerns caused by the fear of bank failures.

In view of the South's economic position, these characteristics are not unusual or surprising. A region of low income and in the early

stages of industrialization is usually marked by a comparative scarcity of financial resources. Further, within a given country the financial markets are usually more highly centralized than other markets; there is usually only one real money market in a country and the financial resources of the country tend to concentrate around that market.

As southern incomes rise and the region becomes more mature economically, financial resources may be expected to increase even faster than other economic series. In fact, that has been happening already. In recent years, the assets and insurance of southern insurance companies, although still relatively small, have grown much faster than the assets and insurance of nonsouthern companies. Between 1939 and 1947, demand deposits of southern commercial banks increased by 295 percent contrasted with an increase of 149 in nonsouthern banks—a rate of growth almost twice as great. During the same period, however, time deposits grew at almost the same rate in the two regions—135 percent in the South and 129 percent in the non-South. During these years the South increased its share of the Nation's demand deposits from 12 percent to over 17 percent, while its share of time deposits remained approximately constant at about 11 percent. The growth of time deposits undoubtedly was affected by the sale of savings bonds, which in the South was roughly proportionate to income payments.

The problem, briefly, is this: The South's share of the Nation's savings is less than its share of income payments or industry and a part of that is not available for local investment. Yet if the region is to overcome its economic lag, it must have funds for investment far in excess of its "share" as measured by the above factors. There is nothing approaching an accurate estimate of the amount of funds which would be required and perhaps no accurate estimate is possible.

The group which made the industry study for Economic Problems of the Cotton Belt estimated that to take care of normal growth and provide employment for the labor displaced by the mechanization of agriculture between 1946 and 1965 would require 27.4 billion dollars at 1945 prices. This figure would now have to be raised by some 50 percent to allow for price increases since 1945, making the total about 41 billion dollars. Further, that estimate apparently did not include any funds to finance agricultural mechanization itself nor any funds to pay for expansion of governmental facilities such as roads, streets, water and sewer systems, schoolhouses, etc.[60] This line of approach would suggest an annual investment of between 2 and 3 billion dollars.

Recently the Department of Commerce has estimated that business expenditures for new plant and equipment in 1948 amounted to 18.8 billion dollars in the whole country.[61] Very roughly, we might say that the South has about one-sixth of the Nation's industry. To be able to hold its own, the region would have to invest over 3 billion dollars in business enterprises alone in such a year. Many adjustments would have to be made to such a figure. Perhaps southern plants and equipment are not so expensive as nonsouthern and some considerable parts of these funds represented depreciation and other reserve funds and hence did not come out of savings. On the other hand, the figure does not include investments in residential housing, governmental facilities, agricultural equipment, etc.

[60] Op. cit., Economic Problems of the Cotton Belt, pp. 565–566.
[61] Domestic Business Investment, Survey of Current Business, February 1949, p. 20, U. S. Department of Commerce, Washington.

This line of approach would suggest that in a year like 1948, when both prices and physical expansion were at peak levels, the South would require an investment amounting to some 4 or 5 billion dollars if it is to make any progress in "catching up." Certainly the amount in not likely to be less than $3,000,000,000 per year; it might be as much as $5,000,000,000, depending upon prices, the rate of national expansion, etc.

The provision of capital funds for southern economic development

How may capital funds of the required magnitude be provided for the South?

The main reliance will probably have to be placed in investments by large, national companies from outside the region which build plants in the South. However, as will be explained more fully below, the tax policy of the Federal Government may not permit these companies to accumulate large reserves as in the past few years, when some 65 to 70 percent of the funds to finance plant expansion have come from profits and reserves. The record earnings of the past 2 years can hardly be expected to continue permanently; if they should decline by, say, 50 percent, the outlook would be changed drastically.

A second method of raising the funds would be for southern companies to borrow or sell securities outside the region. Except for loans by insurance companies, this method apparently has not been of great importance in the past, probably because there were not many indigenous southern companies large enough to take advantage of it. There are some indications that it has been of more importance in the past few years, but before it can become significant funds will have to be provided to finance the southern companies in the earlier stages of their development:

The great mass of small southern companies, and most of the medium-sized ones, will have to depend for their financing upon local financial resources. From the nature of the case, this is likely to be true, and perhaps has been true in other times and other areas.[62] But it may be more difficult now than it was formerly. As one writer has pointed out:

> * * * the migration, urbanization, and industrialization of our society during the last half century have tended to break down the personal ties of family and neighborhood that gave rise to the informal pools of risk funds with which many a nineteenth-century enterprise was launched. The present-day equivalent of Uncle Bill and Aunt Susie must be found in a more impersonal source of capital funds—the more so since the tax levels on business and individual incomes have slowed the rates at which earnings can be plowed back for business growth.[63]

It is difficult to say whether the problem of financing small business in the South is essentially different from, or more difficult than, the problem elsewhere. One study by the Federal Reserve System gives some light on bank loans to business. On November 20, 1946, member banks in three of the southern Federal Reserve districts—Richmond, Atlanta, and Dallas—had 13 percent of the loans and investments of all member banks in the country. Those same banks had, on that date, 12.9 percent of all loans to businesses, 7.3 percent of all term loans to business, and 19.5 percent of all loans to "small" business units. Interest rates charged by the southern banks were not significantly different from rates charged by other banks when account

[62] See, for example: Oscar F. Litterer, Where Does Small Business Obtain Its Capital? Federal Reserve Bank of Minneapolis, December 1948.

[63] A. D. H. Kaplan, Small Business: Its Place and Problems, p. 151, New York, 1948.

was taken of the size of banks and the size of the business units borrowing.[64] These data indicate that southern banks are going very slowly on term loans but that they are making substantial provision for small businesses, even allowing for the fact that business units are considerably smaller in the South.

But bank loans usually constitute only a small part of the total funds used by small business, and they are not equity capital. We are not prepared at this time to make any specific proposal as to how equity capital should be provided for small business since we do not know the size or the exact nature of the problem. To provide that information we need a study of the kind mentioned below.

As for specific action by the Federal Government, two policies may be suggested. Neither would require any outlay at present and neither of them would necessarily entail any eventual cost to the Federal Government.

The first would be to extend deposit insurance to cover 100 percent of all deposits. There have been numerous suggestions along this line and the Federal Deposit Insurance Corporation has, in effect, extended 100 percent insurance in many cases where it has made loans or purchased assets to facilitate the merger or rehabilitation of weak banks. With over a billion dollars of resources at its command, the FDIC is now strong enough to assume this added risk. One major advantage of this change to the South would be the protection it would give to large business deposits in southern banks. This might reduce the chance of their being removed in periods of depression and possible bank failures.

The second change would be to instruct the Treasury to watch the regional flow of funds in any future period of financial tension, and if it found that there was any pronounced tendency for funds to leave any one region, to move treasury deposits to counteract such movement. With the cash balance which the Treasury regularly carries now, this could be done without serious inconvenience. It would involve no cost and relatively little effort, since the Treasury regularly must watch the effects of its cash operations on the banking system.

Beyond these two measures, it is probably not wise to recommend any further participation by the Federal Government at this time. Rather, there should first be an intensive, thorough survey to determine the legitimate need for business capital funds and the resources to meet those needs. The lack of capital has often been alleged as one of the South's main handicaps, but insofar as we have been able to determine, there has never been anything approaching a thorough investigation of the question. The survey should be made by a small, select committee of outstandingly competent men, say a businessman, a commercial banker, an investment banker, an economist, and a farmer. Preferably they should work under private rather than governmental auspices. They should attempt to assay the need for and availability of investment funds, not according to commercial banking standards but according to sound investment banking standards. With a fund of $200,000 or $300,000, a small staff, and a year's time they should be able to make intensive studies in at least one community in each of the Southern States. Such a survey should provide more light on this controversial question than has ever been available before.

[64] See Federal Reserve Bulletin for March, May, July, and August 1947. Board of Governors of the Federal Reserve System, Washington.

It is possible that the maintenance of the kind of active demand for goods which is both the cause and the accompaniment of full employment would in the future, as in the past few years, create investment opportunities so potentially profitable that they would of themselves attract whatever capital funds might be needed. In this case, special Federal action would not be required. If such a survey should, however, show a definite and permanent need for capital funds not likely to be met by existing southern resources, then some form of Federal aid should be considered. Such aid might take the form of a regional industrial investment fund set up by the Reconstruction Finance Corporation or some other similar agency along the lines suggested in the legislation proposed by Senator John J. Sparkman, of Alabama.

FEDERAL POLICY IN RELATION TO LABOR IN THE SOUTH

Effects of Federal legislation and unionization on southern wages

The general problem of labor and wages has been discussed in chapter III.[65] As in the case of other elements of the economy of the South, labor and wages must be dealt with in terms of policies which are national rather than regional in scope. The policies of the Federal Government do, however, profoundly affect labor and wages in the South.

There can be little question that the labor legislation of the New Deal has been responsible for substantial improvement in the bargaining power of southern labor. Without the Wagner Act the organization and maintenance of labor unions in the most important industries of the South would have been almost impossible. The Walsh-Healy Act and the Fair Labor Standards Act played some role in raising wages in industry but were less effective than was the newly won power in collective bargaining of the unions themselves. It would require a great deal of hardihood for anyone to argue that real wages would be as high as they are in the South had there been no Federal labor legislation at all.

Southern wage rates and industrial expansion

It has been argued, however, that the higher wages which labor in southern industry has received have been a factor in slowing up industrial expansion. It has likewise been argued that this means that more laborers must continue to receive the low wages which are paid in agricultural employment—which is the principal alternative employment in the South—than would be the case had industry expanded more rapidly. Those who made this argument originally claimed that a rise in wages induced through Federal legislation would actually cause unemployment in southern industry.

It is clear enough that the rise in wages which did take place over the last 15 years or so did not cause unemployment in southern industry. It is, however, possible that employment did not expand as much as would have been true had wages not increased. There is little evidence to indicate that this was the case.[66] Changes in the

[65] See ch. III, Wage and Labor Policy.

[66] A recent case study, New Industry Comes to the South, conducted by Dr. Glenn McLaughlin and Dr. Stefan Robock for the Committee of the South (referred to earlier) shows that of the factors determining the location of 88 new plants in the South during the postwar period, wage differentials were of minor importance as an inducement to locate in the South. It is true that corporate executives are not likely to admit freely, perhaps even to themselves, such an unpopular motivation for plant location as lower wage rates. However, industrialists often point out that they have little confidence in the long-term maintenance of North-South wage differentials and consequently would not feel justified in basing investment decisions on a factor which they expect to be temporary.

general demand for goods in our national economy from 1933 to the present time have almost completely "swamped" any changes in potential employment in southern industry which might have been caused by changes in wage rates in the South. This period was on the whole one of greatly increasing demand for goods, engendered first by the expansionary money and credit policies of the New Deal and later by the effects of deficit spending for war. Under these circumstances southern industrialists could pay the increased wages without serious difficulty at a time when their own profits were generally increasing.

It is just as clear that even under conditions of full employment wages could be pushed too high. "Too high" wages could cause either lower actual or potential employment or could lead to inflationary pressures. For the South, "too high" wages would be those which would substantially limit the expansion of industry. For the present, except in the case of minimum wages, no one proposes that there should be action by the Federal Government to fix wages. Federal policy is involved, however, since the relative strength of collective bargaining between industry and labor depends upon the rules which the Federal Government lays down.

It is not at all apparent, however, that even if equalization of bargaining power could be attained that the problem of setting wages which would be "reasonable" and neither much "too high" or much "too low" would be solved at all. Equality of bargaining power might only insure stalemate in wage negotiations. It is not of much help, for example, if both sides can afford to wait, say, 2 months and no more before coming to an agreement. The public interest is not served if, for example, the railroads and the railway unions are both powerful enough so that the only alternative to interruption of service through strikes would be both wage and rate increases.

Equalization of bargaining power would likewise not constitute any very dependable assurance that wage rates in southern industry would be set as high as they could be without substantially interfering with the expansion of southern industry and no higher. All that can be said is that here is a field in which our national economic policy is not yet at all clear. Whether the substitution of collective bargaining for the individual wage bargain inevitably leads to some sort of intervention in the fixing of wages by the Federal Government only time will tell. In the meantime Federal policy obviously must primarily be limited, in the fields of wage determination, to that of fixing the rules under which collective bargaining takes place and trusting that somehow this process will result in wage scales which will not seriously disrupt the economy.

Federal minimum wage legislation: The problem analyzed

If one judged by the recent experience of the South with Federal minimum wage legislation, one would conclude that a substantial increase in minimum wages would not seriously curtail employment in southern industry. The 40-cent minimum wage was taken by southern industry "in its stride." But it has been pointed out that the general increase in employment and price level caused by the war almost completely obscured any economic effects for which the increase might otherwise have been responsible.

There seems little doubt that if present levels of business activities were to continue and if the price level remained substantially un-

changed some increase in minimum wages could take place without producing unemployment. Indeed, a large proportion of southern industry could pay a minimum wage as high as the proposed 75 cents per hour without difficulty, since the minimum wage in many plants is already above this level.

In the larger and more efficient textile mills, for example, the minimum wage is already above 90 cents per hour.[67] On the other hand, there are small plants which would probably be put out of business if the hourly wage were increased even to 60 cents per hour. It is probable that employment in small southern lumber mills would be adversely affected by a substantial increase in the minimum wage. In some cases the only alternative to persons who might be thrown out of employment would be a return to much lower-paid employment in submarginal agriculture.

The closing of some small and inefficient industries might be offset at least to some extent by increased employment in the more efficient and larger plants which would now have to be depended upon to supply the goods formerly produced in the plants which had had to close because of an increase in the minimum wage.

Even in the case of some of the small sawmills, the result of the increase in minimum wages might be partially to lower the price paid to owners of timber and partially to increase the price which would be charged for grades of lumber produced in the South rather than to make the entire adjustment by reducing employment or going out of business.

No one could say with precision whether a minimum wage rate of 60 or 75 cents an hour would be the upper limit at which such a law should operate. Analysis of the evidence supports the view that a minimum wage law somewhere within this range would be desirable. It is obvious that a minimum wage should not be set independently of movements in the general price level. While a minimum wage probably has some effect in maintaining a "floor" under commodity prices if these prices did decline substantially, it would be essential that the minimum wage be adjusted downward. It would be just as true that a minimum wage level should have upward flexibility in case the general price level increased. An effort to write such flexibility into any minimum wage legislation would be highly desirable.

FEDERAL FISCAL POLICIES IN RELATION TO THE SOUTH

When the Federal budget amounts to about one-fifth of our national income, as it does today, it is obvious that Federal fiscal policy must have an important effect on all phases of the economy. We have already pointed out how the great increase in Federal expenditures in the region raised southern income sharply during World War II. But there are other and less obvious effects of Federal fiscal operations on the southern economy, and not all of them are beneficial. In this section we will consider some of those effects and examine the desirability of new policies in certain instances.

Federal taxation in relation to southern industrial expansion

Federal taxation is today a major factor affecting the financing of industrial expansion. Before World War I, it was a negligible factor.

[67] The Secretary of Labor, acting under authority of the Walsh-Healy Act has determined that the prevailing wage which must be paid labor employed on Government contracts in the textile industry in the South is not less than 80 cents per hour for beginners and not less than 87 cents per hour for all others.

Individuals could and did accumulate large personal fortunes in industry and then used them to finance expansion in that particular industry or to develop new ones. Corporations could use practically all of their net income to pay dividends or finance expansion, since they paid very little of it in taxes. Even after World War I, tax rates were low in comparison with present rates; for several years the maximum surtax rate on individual incomes was 20 percent and the rate on corporate incomes varied from 12 to 14 percent.

Today the steeply progressive rates on individual incomes effectively prevent the accumulation of larger personal fortunes such as those we have known in the past, and high corporate rates (Federal and State) usually take 40 percent or more of corporate net income. Further, corporation managers feel impelled to retain a considerable proportion of income after taxes to provide a cushion against fluctuating business and to finance expansion. The result is that only about a fourth of income before taxes is now used for dividends. Under such conditions it is much more difficult than it was 40 years ago to find individuals with funds available to finance industrial expansion and then to offer them the necessary incentive to get the funds into industry. During the past 2 years the problem has been met largely by retaining a large proportion of the very large earnings of corporations but it would not be sound to expect those earnings to continue at present levels.

In the non-South, industry achieved the greater part of its growth before taxes attained their present importance. But the South must now realize most of its industrial development, if at all, in the face of present high tax rates. While those rates may be moderated somewhat in the future, it is not realistic to expect them to go back to their levels of 1929, or even of 1939. It should be noted that this is a national—not a regional—problem, but its impact is especially felt in the South. The corporations which are especially affected are the small number of large national companies which provide the greater part of industrial expansion. As previously noted, they are the ones which are counted upon to finance and carry out the bulk of the industrial expansion in the South through their building of plants. If taxes prevent them from retaining or attracting sufficient funds to carry through that expansion, then the principal source of funds and the main driving force for southern industrial development will be eliminated.

In view of the great increase in income which small and middle income receivers have enjoyed in the past 10 years, and the relatively low tax rates which apply to them, it has been suggested that industry might look to them to supply more investment funds. There are, however, limitations on the amount of funds they can be expected to supply, especially if those funds are to be used as equity capital for new industries.

First, they should not take the risks which accompany most new industrial undertakings.

Second, the cost of reaching these people and selling securities to them in small lots is very heavy.

Third, the modest dividends which are possible after heavy taxes and the retention of large amounts for reserves and expansion provide too low a return to attract them in most cases.

New problems in the financing of industrial expansion

We are in a new phase of capitalism in regard to the financing of industrial growth, especially concerning the provision of equity capital. Over the past 10 years we have had an enormous industrial expansion. During World War II, the Federal Government supplied most of the funds to finance the expansion in the form of buildings and equipment, large order with liberal allowances for depreciation, and the underwriting of loans. Since the war, industry has provided the bulk of its own funds. First, it used profits accumulated during the war. Then, its high rate of profits has enabled it to overcome the burdle of high taxes and, by keeping its stockholders on a strict ration of dividends, it has used most of the remaining profits to finance expansion. If and when the present stage of high profits has passed, we might have to find some other source of funds if we are to maintain a dynamic growth of industry. As noted above, this is a national problem, but the South has a special stake in its solution.

The impact of Federal taxation on the South

No adequate data are available to measure the impact of Federal taxes on the South. Figures of internal revenue tax collections are available by States, but these are not an accurate measure for two important reasons:

First, many of the larger industrial plants are owned by companies which have their headquarters outside the region; Federal income taxes paid by such plants are thus reported and paid in other States.

Second, a large part of the collections in the South is in the form of excise taxes on tobacco and, to a much less extent, on liquor. These are paid initially in the South but are shifted to consumers all over the country. On the other hand, southerners eventually pay a considerable proportion of the taxes on automobiles, radios, liquor, refrigerators, and other similar articles which are collected in other States.

But taking the figures as they are, we find that in 1940 internal revenue collections in the South were 20.6 percent of the national total. This proportion declined steadily until 1945, when it reached 13.7 percent; it then rose to 14.8 percent in 1946 and 15.8 percent in 1947. The reversal of trend since the war has been due to three principal factors: First, the repeal of the excess-profits tax, of which the South never had a high proportion; second, reductions in the corporate and individual income tax rates while excise rates remained the same; and, third, a greater increase in collections from the individual income tax in the South than in the non-South.

With the statistics now available, individual income tax collections provide the best measure of the Federal tax burden of a region because the taxes are usually paid in the State in which the income is earned, because there is no shifting, and because these collections now amount to more than half of all internal revenue collections. Between 1940 and 1947, collections of Federal individual income taxes in the South rose by 2,132 percent compared with an increase of 1,846 percent in the non-South; in terms of the national total they rose from 11.7 percent in 1940 to 12.6 percent in 1945 and to 13.3 percent in 1947. Between 1945 and 1947, the increase was from $2,405,000,000 to $2,567,000,000, or 6.7 percent in the South, compared with an increase from $16,629,000,000 to $16,876,000,000, or 1.5 percent, in the non-South. During the same postwar years, the collections from all other taxes increased more in the South; with the corporate income

tax and the employment taxes, the rates of increase in the South were more than twice as great as in the non-South.

With one exception, all the changes in Federal taxes since the war have benefited the South less than the rest of the country. That exception was the increase in personal exemptions from $500 to $600 in 1948. The other principal changes were: The repeal of the excess-profits tax, the reduction of income taxes while holding excise taxes constant, and the income-splitting and estate-splitting provisions of the 1948 Revenue Act. The latter will be of less benefit to the South for two reasons: Three States—Louisiana, Oklahoma, and Texas—already had that privilege because of community property laws; and the lower average incomes and estates in the region will limit the savings to be realized by its use.

The drastic reduction in personal exemptions under the individual income tax during the war made that tax one of general application in the South for the first time. Before that time the tax had been paid by only 3 or 4 percent of the population. At the present time there are valid reasons, on a national basis, for raising personal exemptions to the point where they will represent as much purchasing power as they represented when they were prescribed in the middle of the war. Such a change would have special significance in the South; it would increase the consumer's purchasing power and would enable the low incomes to afford a slightly higher standard of living.

Federal grants-in-aid

Another phase of Federal fiscal policy is significant to States and regions—the grants-in-aid made to States to help defray the cost of various activities.

Most of the grants made thus far have been for the purpose of stimulating State activity and have required matching funds. The formulas for allocating those grants have usually been based upon population, highway mileage, and other physical factors. As a result, the amount of such grants received by the South has been roughly in proportion to population. For example, in the fiscal year 1947, Southern States received a total of $347,000,000 out of a national total of $1,175,000,000, or 29.2 percent.[68] Since this proportion is considerably higher than the proportion of Federal taxes collected in the region, by whatever measure used, the South definitely benefits by the arrangement—probably on the order of $150,000,000 or so. But this amount is so small in relation to the total income of the region—less than one-half of 1 percent—that it cannot directly cause any appreciable change in that income. If it is to exert any significant effect on incomes it must do so through certain strategic elements in the economy.

Two types of grants accounted for 58 percent of the total of $347,000,000 received by Southern States—old-age assistance with $127,500,000 and highway construction with $73,000,000. The remainder was divided among a wide variety of activities—including public school lunches, agricultural extension work, vocational education, public health, aid to the blind, aid to dependent and crippled children, unemployment compensation administration, public employment offices, and others. Florida and Texas, the two States with

[68] Annual Report of the Secretary of the Treasury, 1947, pp. 507-512, U. S. Treasury Department, Washington, 1948.

the highest per capita incomes, received $48,800,000, or 38 percent, of the grants for old-age assistance. They had about 24 percent of the southern population. Oklahoma also received $24,800,000 for this purpose. And these three States, with 30 percent of the population, received 58 percent of the grants for old-age assistance received in the region.

This fact calls attention to the dilemma which many Southern States face in respect to Federal grants. Roughly half, on the basis of expenditures, of the Federal grants are for alleviative or humanitarian purposes—designed to provide aid for the unfortunate and, usually, nonproductive members of society. Old-age assistance alone receives about 38 percent of the total. This is a commendable purpose and Southern States would like to take advantage of all Federal funds available. But, faced with limited funds, the South must at some point make the hard choice between spending more for the aged, the crippled, and the unfortunate, and appropriating more for the development of their resources and training and educating the producers of the next generation. The fact that their "humanitarian" dollars will be accompanied by Federal funds and will thus go further puts pressure on the legislators to spend more money in that direction; very few Federal funds are available for resources development or public school education generally. Even within the field of relief expenditures, the effects of this pressure are indicated by the fact that Southern States make a much poorer showing on expenditures for general relief, where no Federal funds are available, than they do on expenditures for other phases of social security where Federal grants are available.

Poorer States have been helped on certain social security payments by a 1946 amendment to the Social Security Act. That amendment provided that for old-age assistance and aid to the blind the Federal share would be two-thirds of the first $15 of monthly payments and one-half of the balance of matchable expenditures; for aid to dependent children, it was two-thirds of the first $9 plus one-half of the balance. In view of the change in prices since that time, it would seem that it might be appropriate to double these figures now, making the Federal share two-thirds of the first $30 and $18, respectively, and one-half of the balance of matchable expenditures. This would provide a minimum national standard which would certainly not be too high for any region, would require the States to contribute something toward that minimum, and would encourage them to go beyond that level.

Federal aid to education

The area in which the South most needs assistance is that of public school education. The facts may be briefly summarized.

The South has approximately one-third of the Nation's children of school age and of the children actually attending school. But the region has only about 18 or 19 percent of the Nation's income. Although the region, according to the latest data available, spends about the same proportion of its income on public education as the rest of the country (about 1.65 percent), the combination of low income and the large number of children means that average expenditure per child enrolled in the South is only about half of the figure for the non-South. School expenditures are rising rapidly throughout

the country because of higher prices and rapidly increasing enrollments. Between 1925 and 1945, the South increased its school expenditures at a more rapid rate than did the rest of the country. Whether it can continue to do so under present conditions is highly problematical.

The Nation has an interest in the level of education which prevails in any region of the country. It has a special interest in education in the South because of the heavy tide of migration which normally flows out of the South and into the rest of the country. Many proposals for Federal aid to public school education have been made during the past 20 years and it is quite likely that some kind of Federal aid will be provided soon. The President's budget for the fiscal year 1950, presented to Congress in January 1949, included a proposed $300,000,000 for this purpose.

If and when such appropriations are made, the problems will be many and difficult. For one thing, political considerations will require that the total amount be larger than would be required for equalization purposes alone. The total will have to be large enough to provide some payment to every State. Further, once the aid is established there will be an inevitable tendency for it to grow over the years until it becomes a major portion of all public school funds instead of just an equalizing supplement. We may expect a large bureau of professional educators to preside over the distribution of several billions of dollars each year. Educational groups, which formerly concentrated on city councils and which now focus most of their pressure on State legislatures, will train their biggest guns on Congress and we will have another pressure group equal to the best.

Despite all assurances to the contrary now being given, when Federal aid to public schools is firmly established, there will be strong and persistent attempts to use that system of aid to improve the educational practices of the "backward" areas by bringing to them the most "progressive and enlightened" methods, texts, and doctrines. The South will be especially affected by one change which, it can confidently be predicted, will be proposed and perhaps adopted. That will be to require States to abolish racial segregation in their public schools in order to qualify for Federal aid.[69] Southern States will not accept such a condition now and will not accept it for many years to come, if ever. If a bitter fight should develop over an issue such as this and if Federal aid to public schools in the South should be cut off, it would be far worse than if no such aid had ever been provided.

There is urgent need for Federal aid to public education in the South. If and when such aid is provided, every possible precaution should be taken to prevent the amount from growing to enormous size and to prevent the system from being used as an instrument of social reform by any group which is able to capture enough votes in Congress. Perhaps one device to aid in this direction and to restrict the size of the bureaucracy which would administer the system would be to provide that allocations to the various States should be made by the Treasury Department, using a formula prescribed in the act, and that the unit making the allocations and authorizing disbursements should not exceed some small number, say 25.

[69] One such amendment was prepared but defeated during the debate on the education aid bill in the Senate early in May 1949 (the New York Times, May 4, 1949, p. 22).

FEDERAL FOREIGN TRADE POLICY IN ITS EFFECT ON THE SOUTH

It has previously been pointed out that the dependence of the South on foreign trade has greatly diminished.[70] Much the greater proportion of the cotton and tobacco raised in the South is now consumed domestically rather than exported. The proportion of the total income of the area which is received from exports has likewise greatly diminished. Consequently the South now has, instead of the particular regional interest in foreign trade of an earlier day, the same interest as the rest of the country in the expansion of world trade. It is through the expansion of world trade that international division of labor can aid in raising the standard of living of all countries. This is particularly important in the case both of backward countries and of highly industrialized countries deficient in foodstuffs and raw materials, such as the United Kingdom and Japan, which must literally import or die.

For the South, as for the rest of the Nation, alternative policies which might be followed in foreign trade by the Federal Government are not matters of life or death in their immediate economic effect. Indirectly, they may almost amount to that. If the United States were to follow a policy of high protective tariffs accompanied by export subsidies, to use an extreme example, we would probably render impossible the development of freer international exchange of goods, with possible disastrous results to the whole world. On the contrary, a foreign trade policy which effectively promoted the expansion of international trade would contribute immensely to world political stability and economic well-being. At the same time, under favorable circumstances, such a policy would contribute to our own economic well-being through an increase in imports which would permit foreign countries to pay in goods for the huge excess in exports which we have been sending abroad for years.

Currently the South is receiving what amounts to a substantial subsidy on the export of its cotton and tobacco through America's free grants to western Europe and to China under the Marshall plan, just as the rest of the country is receiving, in effect, similar export subsidies on other American products shipped abroad. It seems highly unlikely, for example, that the current price of cotton of about 30 cents per pound could be maintained in the absence of the general subsidy now provided by the Marshall plan, unless the Government were willing to substitute a specific and direct subsidy upon the export of cotton or allowed even greater amounts of cotton than at present to "come under the loan" at the support price.

It is thoroughly unsound for the economy of the United States to become dependent upon subsidized exports for its foreign markets. By 1952, when the Marshall plan is supposed to come to an end, our economy must have made the necessary adjustments so that export subsidies—either specific or indirect and general—will no longer be needed.

Viewed from the standpoint of our whole national economy, the problem is difficult but by no means insoluble. If five or six billions of dollars annually were no longer needed for foreign aid, taxes on lower incomes in the United States could be reduced by that amount. Five or six billions of additional dollars in the hands of our lower

[70] See ch. III, International Trade, et seq.

income receivers would function as purchasing power almost as well as when it is turned over to Europeans for the purchase of American goods. It would probably be necessary, in addition, to expand social security payments financed by the Federal Government very substantially and to expand other types of desirable Federal expenditures, and even to pass over to deficit financing to offset any possible fall in the demand for goods if we did not need any longer to give away these billions of dollars in foreign aid.

It would likewise be essential that our imports of goods from the rest of the world should have expanded by the end of the Marshall plan in order to aid in the elimination of the long-standing deficit in the balance of payments of these countries. A further development of our reciprocal trade agreement program and the adoption of the charter of the proposed International Trade Organization by the United States Congress would facilitate this development somewhat.[71] If an effective program for the expansion of our imports could be developed, an additional amount of these imports could be partially absorbed as a result of the lowering of taxes in the brackets when extraordinary aid to foreign countries was no longer necessary.

There will be a strong temptation to try to maintain the price of southern agricultural products at present levels and to rely upon the continuance of some form of export subsidy, or other form of "dumping," to market these goods abroad. There will also be strong resistance throughout the country to allowing increased imports of manufactured goods to enter the country. It is quite likely that this sentiment may develop in the South in case the competitive situation between our textile manufacturers and those of countries exporting to our domestic market should become difficult. It is certain that only in case substantially full employment in the United States is maintained could we absorb the volume of imports which would be essential to allow our exports to remain at current levels.

However, just as in the case of our agricultural policy, it is essential that we shall not plan our foreign trade policy on the assumption that we are going to have a serious economic depression. It would be impossible to plan a rational economic policy in international trade on the assumption of widespread unemployment in our own economy. It seems quite certain that no government could allow large-scale unemployment to continue for any long period without taking the most heroic measures to overcome it. If these measures are taken too soon or are on too grandiose a scale the possibility of our thus slipping into an inflationary upsurge cannot, of course, be discounted. Nevertheless, since the means of offsetting deflationary forces are now so well known it is almost a certainty that, whatever the dangers, these means will eventually be used, not only by our own Government but by substantially all governments throughout the world.

Future prospects in our foreign trade: Problems, difficulties, recommended policies

The problems of carrying on international trade between countries which, like our own, are still characterized by a large degree of free enterprise, and countries which have wholly or largely state-controlled

[71] However, there can be no doubt that the long-time trend of the deficit in the balance of payments of Europe with the United States represents a problem far more basic than one which could be cured by changes in our own tariff policy. See Europe After 1952, the Long Term Recovery Problem, by John H. Williams, Foreign Affairs, April 1949, pp. 426–448.

economies, are many and serious. The problem of overcoming the persistent deficit in the balance of payments of most of the rest of the world with the United States is also an extremely difficult one. Its solution depends not only upon the economic policy of our own Government but even more upon the policies of the governments of the countries having the deficit in their balance of payments. In order to expand their exports in the dollar area these countries must keep the prices of their exports down, measured in dollars. This can be accomplished in the short run by the devaluation of their currencies in relation to the dollar. In the long run it means keeping cost of production down, also measured in dollars. This, in turn, means keeping real wages from increasing too rapidly. This is likely to be politically very difficult. During the postwar period, some of the most difficult economic problems of these countries have been rooted in inflationary policies. While there is some evidence that inflationary tendencies are being brought under control in these countries, it does not seem likely that any country in Europe or elsewhere is likely to persist in deflationary policies should serious unemployment begin to appear. This means that the inflationary danger is likely to be the more chronic problem, although there well may be a serious deflationary interlude.

The conclusion that the existence of long-continued, large-scale unemployment is not one of the conditions upon which our policy in foreign trade should be based seems thus to be strongly reinforced. The safeguards in the charter of the proposed International Trade Organization and in the reciprocal trade pacts against injury to our domestic industry, which might result due to a heavy influx of imported manufactured goods at a time when our own industries were having to curtail production owing to the lack of demand during a depression, seem as adequate as could be devised under the circumstances. On the other hand, the use of the safeguard clauses in order to curtail imports would to that extent curtail the expansion of world trade which is so desirable.

Once more we come to the conclusion that the maintenance of adequate demand for the products of the economy of the United States is a necessary condition for a sound policy in international trade just as it is for a sound policy in our domestic economy. If this highly complex problem—how full employment in our economy is to be maintained without succumbing to the evils of inflation—can be solved, we could reasonably expect that the lag of the South in economic well-being would be overcome by progress along the lines indicated by existing economic trends.

V. Summary

Although the South has made substantial progress in overcoming its economic lag behind the rest of the country in the past 20 years much remains to be done.

In industry, the region made striking progress in the prewar decade; about held its own during the war on an over-all basis, but reduced its dependence on textiles and realized the beginning of a healthy diversification. Apparently a slow but steady relative progress continues in the postwar years.

The South has realized its greatest relative increase in financial resources but still ranks lowest in that field.

Per capita income payments in the South rose from 47 percent of per capita payments in the non-South in 1929 to 63 percent in 1947, but most of that gain was concentrated in two short periods—1931–34 and 1941–45. A slow relative progress continues in the postwar years after a set-back in 1946. Over the period, the structure of income payments improved in balance, with smaller amounts coming from agriculture and more from industry and other sources.

Many causes have been advanced to explain the South's economic lag. Among these have been the protective tariff imposed by the North on the South, higher freight rates in the South, absentee ownership of southern industry, the wage differential between the South and the rest of the country, not to mention the hoary old stand-by, the lingering effect of the War Between the States.

All these alleged causes of economic lag are actually either of minor importance or are not truly causal. The complete removal of the protective tariff, for example, would not of itself improve the income of cotton producers enough to greatly affect total income in the South. The nature of the differential in freight rates, North and South, has been generally misunderstood and its effect greatly exaggerated. Lower wages in the South are only causal to a minor degree; primarily they are a result rather than a cause. The so-called evils of absentee ownership have been greatly exaggerated. The South needs far more industrial investment from whatever source available.

The fundamental means by which the economic lag of the South can be overcome is through the increase of productivity and value of output of southern industry and agriculture. This means that the South must have more industry and the kind of industry in which the value of output per worker is higher. It means an agriculture of fewer uneconomically small farms and of more medium-sized farms employing fewer people with larger output per capita and with greater diversification in crops. Fortunately these trends in industry and in agriculture already exist. Through their operation the per capita income in the South has increased more rapidly than for the country as a whole during the last 15 years. Even after this improvement, per capita income in the South remains much below that of the country as a whole.

Action by the Federal Government to increase per capita income in the South in relation to the national average should be primarily a continuation and extension of the type of aid which has been furnished in the past. The Federal Government itself cannot carry out operations which will produce greater income in industry and agriculture. This must be done by private individuals and corporations. Since the bottom of the depression in 1933 industrial production in the South has been generally expanding. New industries have been established. The number of persons employed in industry has increased. Real wages have risen and the wage differential somewhat diminished. In agriculture there has been a trend toward diversification, larger output per capita, larger producing units, and a reduction in tenancy. The policies of the Federal Government have on the whole facilitated these developments which operate to diminish the economic lag of the South.

Great increases in capital investment must take place if industrial expansion is to be made on a scale sufficient to provide employment and to increase value added per worker. Up to the present, shortages of capital have not been the principal limiting factor on the expansion of

southern industry. Capital has generally been available to finance new industries or to provide for the expansion of old ones whenever opportunities for profit were present and were recognized. Whether adequate capital will be available in the future without direct aid from the Federal Government is uncertain. Institutional developments already observable may require a strengthened role for the Federal Government in this field also.

The Federal Government can continue to be of the greatest possible service to the area in maintaining conditions such that these trends can develop further and in accelerating the rate of change. The policies of the Federal Government in bringing about the recovery of the economy of the United States from the depression of the thirties and in carrying out policies which supported agricultural income were of the greatest help to the South.

The attainment and maintenance of a high level of output per capita in industry and agriculture depends upon the carrying out of similarly effective economic policies in the future. The maintenance of full employment in industry on the one hand and the support of farm income on the other are two of the pillars upon which economic development of the South in the future must rest. It is, however, not a simple task to maintain full employment while avoiding inflation. It will not be easy to maintain farm income while keeping prices of farm products low enough so that they will not pile up in surplus and while avoiding "freezing" agricultural production patterns.

The maintenance of fair practices in collective bargaining, the setting of minimum wages at levels which will not allow employers unfair advantages in competition through the payment of substandard wages but which will not be so high as to limit the expansion of industry are likewise complex functions of the Federal Government essential to the economic development of the South.

The South has much the same interest as the rest of the country in the foreign-trade policy of the Federal Government. Working out through the proposed International Trade Organization, the reciprocal trade pacts, and other international institutions and agreements, the means by which the rest of the world can pay us for our exports instead of our having to give them away or to push them on a reluctant world through export subsidies is another of the essential responsibilities of the Federal Government. Once more, it must be said that the maintenance of a dynamic domestic economy is the prerequisite for the effective implementation of such a foreign-trade policy.

Federal aid to research which serves industry and agriculture, Federal aid to equalize educational opportunities in the South with those of the rest of the Nation, supported by a fiscal policy which is fair to the South can continue to forward economic progress.

This report, by its very nature, has emphasized the role of the Federal Government in the past, present, and future economic progress of the South. The authors of the report nevertheless wish to emphasize their conviction that the South should not—and generally does not—expect special treatment from the Federal Government. The South as a region cannot expect to benefit from Federal policies planned with a sectional bias. The Federal Government should orient its political and economic policies in the interests of the whole Nation. Southern workers and management, in agriculture, in industry, and in commerce, must do the rest.

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